

DOLLAR GENERAL CORP

FORM 10-Q (Quarterly Report)

Filed 05/29/03 for the Period Ending 05/02/03

Address	100 MISSION RIDGE GOODLETTSVILLE, TN, 37072
Telephone	6158554000
CIK	0000029534
Symbol	DG
SIC Code	5331 - Retail-Variety Stores
Industry	Discount Stores
Sector	Consumer Cyclical
Fiscal Year	02/02

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended May 2, 2003

Commission file number 001-11421

DOLLAR GENERAL CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

TENNESSEE
(State or Other Jurisdiction of
Incorporation or Organization)

61-0502302
(I.R.S. Employer
Identification No.)

100 MISSION RIDGE
GOODLETTSVILLE, TN 37072
(Address of Principal Executive Offices, Zip Code)

Registrant's telephone number, including area code: **(615) 855-4000**

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No []

The number of shares of common stock outstanding on May 15, 2003, was 333,565,717.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	(Unaudited) May 2, 2003	January 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 75,946	\$ 121,318
Merchandise inventories	1,200,701	1,123,031
Deferred income taxes	26,664	33,860
Other current assets	52,080	45,699
Total current assets	1,355,391	1,323,908
Property and equipment, at cost	1,606,447	1,577,823
Less accumulated depreciation and amortization	618,336	584,001
Net property and equipment	988,111	993,822
Other assets, net	12,465	15,423
Total assets	\$ 2,355,967	\$ 2,333,153
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	\$ 16,560	\$ 16,209
Accounts payable	357,224	341,303
Accrued expenses and other	230,288	239,898
Income taxes payable	36,536	67,091
Total current liabilities	640,608	664,501
Long-term obligations	326,028	330,337
Deferred income taxes	51,584	50,247
Shareholders' equity:		
Preferred stock	-	-
Common stock	166,762	166,670
Additional paid-in capital	314,973	313,269
Retained earnings	860,879	812,220
Accumulated other comprehensive loss	(1,311)	(1,349)
	1,341,303	1,290,810
Less other shareholders' equity	3,556	2,742
Total shareholders' equity	1,337,747	1,288,068
Total liabilities and shareholders' equity	\$ 2,355,967	\$ 2,333,153

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in thousands except per share amounts)

	For the 13 weeks ended			
	May 2, 2003		May 3, 2002	
	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	\$ 1,569,064	100.00%	\$ 1,389,412	100.00%
Cost of goods sold	1,117,158	71.20	1,009,120	72.63
Gross profit	451,906	28.80	380,292	27.37
Selling, general and administrative	348,955	22.24	297,304	21.40
Operating profit	102,951	6.56	82,988	5.97
Interest expense, net	9,411	0.60	10,432	0.75
Income before taxes on income	93,540	5.96	72,556	5.22
Provision for taxes on income	33,208	2.12	26,628	1.92
Net income	\$ 60,332	3.84%	\$ 45,928	3.30%
Diluted earnings per share	\$ 0.18		\$ 0.14	
Weighted average diluted shares (000s)	334,597		334,834	
Basic earnings per share	\$ 0.18		\$ 0.14	
Weighted average basic shares (000s)	333,243		332,665	
Dividends per share	\$ 0.035		\$ 0.032	

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	For the 13 weeks ended	
	May 2, 2003	May 3, 2002
<i>Cash flows from operating activities:</i>		
Net income	\$ 60,332	\$ 45,928
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	36,756	32,004
Deferred income taxes	8,500	39,859
Tax benefit from stock option exercises	224	689
Change in operating assets and liabilities:		
Merchandise inventories	(77,670)	(3,426)
Other current assets	(6,381)	1,500
Accounts payable	15,921	18,671

Accrued expenses and other	(9,198)	(19,775)
Income taxes	(30,555)	(39,464)
Other	1,763	(1,166)
Net cash provided by (used in) operating activities	(308)	74,820
<i>Cash flows from investing activities:</i>		
Purchase of property and equipment	(30,129)	(34,812)
Proceeds from sale of property and equipment	66	58
Net cash used in investing activities	(30,063)	(34,754)
<i>Cash flows from financing activities:</i>		
Repayments of long-term obligations	(4,086)	(3,196)
Payment of cash dividends	(11,673)	(10,646)
Proceeds from exercise of stock options	694	1,374
Other financing activities	64	(1,699)
Net cash used in financing activities	(15,001)	(14,167)
Net increase (decrease) in cash and cash equivalents	(45,372)	25,899
Cash and cash equivalents, beginning of period	121,318	261,525
Cash and cash equivalents, end of period	\$ 75,946	\$ 287,424
<i>Supplemental schedule of noncash investing and financing activities:</i>		
Purchase of property and equipment under capital lease obligations	\$ 117	\$ -

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of presentation and accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Dollar General Corporation (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Such financial statements consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States or those normally made in the Company's Annual Report on Form 10-K. Accordingly, the reader of this Quarterly Report on Form 10-Q should refer to the Company's Annual Report on Form 10-K for the year ended January 31, 2003 for additional information.

The accompanying condensed consolidated financial statements have been prepared in accordance with the Company's customary accounting practices and have not been audited. In management's opinion, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the consolidated financial position and results of operations for the 13-week periods ended May 2, 2003 and May 3, 2002 have been made.

Certain prior year amounts have been reclassified to conform to the current period presentation. Ongoing estimates of inventory shrinkage and markdowns are included in the interim cost of goods sold calculation. Because

the Company's business is moderately seasonal, the results for interim periods are not necessarily indicative of the results to be expected for the entire year.

Accounting pronouncements

In April 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds both SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and the amendment to SFAS No. 4, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." Generally, under SFAS No. 145, gains and losses from debt extinguishments will no longer be classified as extraordinary items. The Company adopted the provisions of SFAS No. 145 on February 1, 2003 and the adoption of SFAS No. 145 has not had a material effect on the Company's financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3"). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, whereas EITF 94-3 had recognized the liability at the commitment date to an exit plan. The Company was required to adopt the provisions of SFAS No. 146 effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on the Company's financial position or results of operations.

In November 2002, the EITF reached a consensus on EITF 02-16, which addresses the accounting and income statement classification for consideration given by a vendor to a retailer in connection with the sale of the vendor's products or for the promotion of sales of the vendor's products. The EITF concluded that such consideration received from vendors should be reflected as a decrease in prices paid for inventory and recognized in cost of sales as the related inventory is sold, unless specific criteria are met qualifying the consideration for treatment as reimbursement of specific, identifiable incremental costs. As clarified by the EITF in January 2003, this issue is effective for arrangements with vendors initiated on or after January 1, 2003. The provisions of this consensus have been applied prospectively and are consistent with the Company's existing accounting policy. Accordingly, the adoption of EITF 02-16 did not have a material impact on the Company's financial position or results of operations.

FASB Interpretation No. 46, "Accounting for Variable Interest Entities" ("FIN 46"), expands upon current guidance relating to when a company should include in its financial statements the assets, liabilities and activities of a Variable Interest Entity ("VIE"). The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply for "older" variable interest entities in the first fiscal year or interim period beginning after June 15, 2003, which would apply for the Company beginning in the third quarter of 2003. The Company leases four of its distribution centers ("DCs") from lessors, which meet the definition of VIEs. Two of these DCs have been recorded as financing obligations whereby the property and equipment, along with the related lease obligations are reflected in the accompanying condensed consolidated balance sheets. The other two DCs, excluding the equipment, have been recorded as operating leases in accordance with SFAS No. 98. Based on our analysis, which is subject to additional interpretive guidance, the Company does not anticipate any change in its current accounting treatment as a result of the adoption of FIN 46.

2. Comprehensive income

Comprehensive income consists of the following (in thousands):

	13 Weeks Ended	
	May 2, 2003	May 3, 2002
Net income	\$ 60,332	\$ 45,928

Reclassification of net loss on derivatives	38	551
Comprehensive income	\$ 60,370	\$ 46,479

3. Earnings per share

The amounts reflected below are in thousands except per share data.

	13 Weeks Ended May 2, 2003		
	Net Income	Shares	Per Share Amount
Basic earnings per share	\$ 60,332	333,243	\$ 0.18
Effect of dilutive stock options		1,354	
Diluted earnings per share	\$ 60,332	334,597	\$ 0.18

	13 Weeks Ended May 3, 2002		
	Net Income	Shares	Per Share Amount
Basic earnings per share	\$ 45,928	332,665	\$ 0.14
Effect of dilutive stock options		2,169	
Diluted earnings per share	\$ 45,928	334,834	\$ 0.14

Basic earnings per share was computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share was determined based on the dilutive effect of stock options using the treasury stock method.

4. Commitments and contingencies

Legal proceedings

Restatement-Related Proceedings . As previously disclosed in the Company's periodic reports filed with the Securities and Exchange Commission (the "SEC"), the Company restated its audited financial statements for fiscal years 1999 and 1998, and certain unaudited financial information for fiscal year 2000, by means of its Form 10-K for the fiscal year ended February 2, 2001, which was filed on January 14, 2002. The SEC is conducting an investigation into the circumstances giving rise to the restatement. The Company is cooperating with this investigation by providing documents, testimony and other information to the SEC. At this time, the Company is unable to predict the outcome of this investigation and the ultimate effects on the Company, if any.

In addition, as previously discussed in the Company's periodic reports filed with the SEC, the Company settled in the second quarter of 2002 the lead shareholder derivative action relating to the restatement that had been filed in Tennessee State Court. All other pending state and federal derivative cases were subsequently dismissed during the third quarter of fiscal 2002. The settlement of the shareholder derivative lawsuits resulted in a net payment to the Company, after attorney's fees payable to the plaintiffs' counsel, of approximately \$25.2 million, which was recorded as income during the third quarter of 2002. The Company also settled the federal consolidated restatement-related class action lawsuit in the second quarter of fiscal 2002. The \$162 million settlement was paid in the first half of fiscal 2002, but was previously expensed in the fourth quarter of 2000. The Company received from its insurers \$4.5 million in respect of such settlement in July 2002, which was recorded as income during the second quarter of 2002.

Plaintiffs representing fewer than 1% of the shares traded during the class period chose to opt out of the federal class action settlement and may elect to pursue recovery against the Company individually. In the fourth quarter of 2002, the Company settled and paid a claim by one such plaintiff and recognized an expense of \$0.2 million in respect of that agreement. To the Company's knowledge, no other litigation has yet been filed or threatened by parties who opted out of the class action settlement. The Company cannot predict whether any additional litigation will be filed or estimate the potential liabilities associated with such litigation, but it does not believe that the resolution of any such litigation will have a material adverse effect on the Company's financial position or results of operations.

Other Litigation . On March 14, 2002, a complaint was filed in the United States District Court for the Northern District of Alabama to commence a purported collective action against the Company on behalf of current and former salaried store managers. The complaint alleges that these individuals were entitled to overtime pay and should not have been classified as exempt employees under the Fair Labor Standards Act ("FLSA"). Plaintiffs seek to recover overtime pay, liquidated damages, declaratory relief and attorneys' fees. This action is still in the initial discovery phase and the court has not found that the case should proceed as a collective action. The Company believes that its store managers are and have been properly classified as exempt employees under the FLSA and that the action is not appropriate for collective action treatment. The Company intends to vigorously defend the action. However, no assurances can be given that the Company will be successful in defending this action on the merits or otherwise, and, if not, the resolution could have a material adverse effect on the Company's financial position or results of operations.

The Company is involved in other legal actions and claims arising in the ordinary course of business. The Company currently believes that such litigation and claims, both individually and in the aggregate, will be resolved without a material effect on the Company's financial position or results of operations. However, litigation involves an element of uncertainty. Future developments could cause these actions or claims to have a material adverse effect on the Company's financial position or results of operations.

Other matters

The Internal Revenue Service ("IRS") is currently conducting a normal examination of the Company's 1998 and 1999 federal income tax returns. The results of the examination, and any other issues discussed with the IRS in the course of the examination, may result in changes to the Company's future tax liability.

5. Stock-based compensation

The Company has a stock incentive plan under which stock options to purchase common stock and restricted stock awards may be granted to executive officers, directors and key employees. The Company grants stock options having a fixed number of shares and an exercise price equal to the fair value of the stock on the date of grant. Under the plan, stock option grants are made as prescribed by the Compensation Committee of the Board of Directors. The number of options granted is directly linked to the employee's job classification. The plan also currently provides for annual stock option grants to non-employee directors according to a non-discretionary formula. The number of shares granted is dependent upon current director compensation levels and the fair market value of the stock on the grant date.

The terms of the stock incentive plan currently limit the number of shares of restricted stock eligible for issuance thereunder to a maximum of 100,000 shares. At May 2, 2003, 68,000 shares of restricted stock were available for grant under the Company's stock incentive plan.

In April 2003, the Company's Board of Directors approved certain amendments to the stock incentive plan, all of which are subject to shareholder approval. The amendments would increase the amount of shares authorized for issuance pursuant to the plan from 21,375,000 shares to 29,375,000 shares (subject to antidilutive adjustment), raise the limit on the amount of restricted stock available for grant from 100,000 shares to 4 million shares, and permit the grant of restricted stock units to key employees. These amendments would also delete the provisions regarding the formula stock option grants to outside directors and provide instead for the automatic annual grant of 4,600 restricted stock units to outside directors (6,000 restricted stock units to an outside director serving as Chairman, if applicable). These amendments will be submitted to a vote by the shareholders at the Company's annual meeting of shareholders to be

held on June 2, 2003. No assurance can be given whether the shareholders will approve such amendments. If the shareholders approve the amendments, they will become effective immediately.

All stock options granted in the first 13 weeks of 2003 and 2002 under the stock incentive plan were non-qualified stock options issued at a price equal to the fair market value of the Company's common stock on the date of grant. Non-qualified options granted under these plans have expiration dates no later than 10 years following the date of grant. In the first quarter of 2003, the Company awarded its new chief executive officer (the "new CEO") an option to purchase 500,000 shares at an exercise price of \$12.68 per share under this plan.

Beginning in 2002, vesting provisions for options granted under the plan changed from a combination of Company performance-based vesting and time-based vesting to time-based vesting only. All options granted in 2002 and in the first quarter of 2003 under the plan vest ratably over a four-year period, other than the option granted under the plan to the new CEO, which vests at a rate of 333,333 shares on the first anniversary of the grant date and 166,667 shares on the second anniversary of the grant date.

The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and related interpretations because the Company believes the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB No. 25, compensation expense is generally not recognized for plans in which the exercise price of the stock options equals the market price of the underlying stock on the date of grant and the number of shares subject to exercise is fixed. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant date for awards under these plans consistent with the methodology prescribed under SFAS No. 123, net income and earnings per share would have been reduced to the pro forma amounts indicated in the following table:

<i>(Amounts in thousands except per share data)</i>	13 Weeks Ended	
	May 2, 2003	May 3, 2002
Net income – as reported	\$ 60,332	\$ 45,928
Less pro forma effect of stock option grants	2,702	3,850
Net income – pro forma	\$ 57,630	\$ 42,078
Earnings per share – as reported		
Basic	\$ 0.18	\$ 0.14
Diluted	\$ 0.18	\$ 0.14
Earnings per share – pro forma		
Basic	\$ 0.17	\$ 0.13
Diluted	\$ 0.17	\$ 0.13

The pro forma effects on net income for the 13 weeks ended May 2, 2003 and May 3, 2002 are not representative of the pro forma effect on net income in future periods because they do not take into consideration pro forma compensation expense related to grants made prior to 1995.

The fair value of options granted during the first quarter of 2003 and 2002 was \$2.92 and \$4.84 per share, respectively. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

13 Weeks Ended	
May 2, 2003	May 3, 2002

Expected dividend yield	0.9%	0.8%
Expected stock price volatility	34.9%	39.0%
Weighted average risk-free interest rate	1.8%	2.8%
Expected life of options (years)	2.8	3.6

The Black-Scholes option model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

During the first quarter of 2003, the Company also granted stock options and restricted stock in transactions that were not made under the stock incentive plan. The Company awarded 78,865 shares of restricted stock as a material inducement to employment to the new CEO at a fair value of \$12.68 per share. The difference between the market price of the underlying stock and the purchase price, which was set as zero for this restricted stock award, on the date of grant was recorded as a reduction of shareholders' equity as unearned compensation expense and is being amortized to expense on a straight-line basis over the restriction period of five years. The new CEO is entitled to receive cash dividends and to vote these shares, but is prohibited from selling or transferring shares prior to vesting. Also during the first quarter of 2003, the Company awarded the new CEO, as a material inducement to employment, an option to purchase 500,000 shares at an exercise price of \$12.68 per share. The option vests at a rate of 166,666 shares on the second anniversary of the grant date and 333,334 shares on the third anniversary of the grant date. The option will terminate 10 years from the grant date. See Part II, Item 2 for further information regarding these grants.

6. Segment reporting

The Company manages its business on the basis of one reportable segment. As of May 2, 2003 and May 3, 2002, all of the Company's operations were located within the United States. The following data is presented in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

<i>(In thousands)</i>	13 Weeks Ended	
	May 2, 2003	May 3, 2002
Classes of similar products:		
Net sales:		
Highly consumable	\$ 990,030	\$ 851,236
Seasonal	237,119	204,763
Home products	199,469	191,112
Basic clothing	142,446	142,301
	<u>\$ 1,569,064</u>	<u>\$ 1,389,412</u>

7. Subsequent event

In May 2003, the Company purchased two secured promissory notes (the "Notes") from Principal Life Insurance Company totaling \$49.6 million. These Notes represent debt issued by a third party entity from which the Company leases its DC in South Boston, Virginia. This existing lease is recorded as a financing obligation in the accompanying condensed consolidated financial statements. By acquiring these Notes, the Company will be holding the debt instruments pertaining to its lease financing obligation and, because a legal right of offset exists, will reflect the acquired Notes as a reduction of its outstanding financing obligations in its consolidated financial statements.

8. Guarantor subsidiaries

All of the Company's subsidiaries, except for two subsidiaries whose assets and revenues are not material (the "Guarantors"), have fully and unconditionally guaranteed on a joint and several basis the Company's obligations under certain outstanding debt obligations. Each of the Guarantors is a direct or indirect wholly owned subsidiary of the Company. In order to participate as a subsidiary guarantor on certain of the Company's financing arrangements, a subsidiary of the Company has entered into a letter agreement with certain state regulatory agencies to maintain stockholders' equity of at least \$250 million.

The following consolidating schedules present condensed financial information on a combined basis. Dollar amounts are in thousands.

	As of May 2, 2003			
	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEETS:				
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 33,606	\$ 42,340	\$ -	\$ 75,946
Merchandise inventories	-	1,200,701	-	1,200,701
Deferred income taxes	8,237	18,427	-	26,664
Other current assets	18,371	1,417,366	(1,383,657)	52,080
Total current assets	60,214	2,678,834	(1,383,657)	1,355,391
Property and equipment, at cost	172,068	1,434,379	-	1,606,447
Less accumulated depreciation and amortization	69,352	548,984	-	618,336
Net property and equipment	102,716	885,395	-	988,111
Other assets, net	2,885,027	38,113	(2,910,675)	12,465
Total assets	\$ 3,047,957	\$ 3,602,342	\$ (4,294,332)	\$ 2,355,967
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term obligations	\$ 8,362	\$ 8,198	\$ -	\$ 16,560
Accounts payable	1,427,543	313,236	(1,383,555)	357,224
Accrued expenses and other	23,871	206,519	(102)	230,288
Income taxes payable	-	36,536	-	36,536
Total current liabilities	1,459,776	564,489	(1,383,657)	640,608
Long-term obligations	248,357	972,302	(894,631)	326,028
Deferred income taxes	2,077	49,507	-	51,584
Shareholders' equity:				
Preferred stock	-	-	-	-
Common stock	166,762	23,853	(23,853)	166,762
Additional paid-in capital	314,973	1,247,290	(1,247,290)	314,973
Retained earnings	860,879	744,901	(744,901)	860,879
Accumulated other comprehensive loss	(1,311)	-	-	(1,311)
	1,341,303	2,016,044	(2,016,044)	1,341,303

Less other shareholders' equity	3,556	-	-	3,556
Total shareholders' equity	1,337,747	2,016,044	(2,016,044)	1,337,747
Total liabilities and shareholders' equity	\$ 3,047,957	\$ 3,602,342	\$ (4,294,332)	\$ 2,355,967

As of
January 31, 2003

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEETS:				
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 72,799	\$ 48,519	\$ -	\$ 121,318
Merchandise inventories	-	1,123,031	-	1,123,031
Deferred income taxes	8,937	24,923	-	33,860
Other current assets	19,004	1,328,417	(1,301,722)	45,699
Total current assets	100,740	2,524,890	(1,301,722)	1,323,908
Property and equipment, at cost	169,551	1,408,272	-	1,577,823
Less accumulated depreciation and amortization	65,677	518,324	-	584,001
Net property and equipment	103,874	889,948	-	993,822
Other assets, net	2,786,977	38,949	(2,810,503)	15,423
Total assets	\$ 2,991,591	\$ 3,453,787	\$ (4,112,225)	\$ 2,333,153
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term obligations	\$ 8,202	\$ 8,007	\$ -	\$ 16,209
Accounts payable	1,412,008	230,273	(1,300,978)	341,303
Accrued expenses and other	32,642	208,000	(744)	239,898
Income taxes payable	-	67,091	-	67,091
Total current liabilities	1,452,852	513,371	(1,301,722)	664,501
Long-term obligations	249,748	937,473	(856,884)	330,337
Deferred income taxes	923	49,324	-	50,247
Shareholders' equity:				
Preferred stock	-	-	-	-
Common stock	166,670	23,853	(23,853)	166,670
Additional paid-in capital	313,269	1,247,279	(1,247,279)	313,269
Retained earnings	812,220	682,487	(682,487)	812,220
Accumulated other comprehensive loss	(1,349)	-	-	(1,349)
	1,290,810	1,953,619	(1,953,619)	1,290,810
Less other shareholders' equity	2,742	-	-	2,742
Total shareholders' equity	1,288,068	1,953,619	(1,953,619)	1,288,068
Total liabilities and shareholders' equity	\$ 2,991,591	\$ 3,453,787	\$ (4,112,225)	\$ 2,333,153

**For the 13 weeks ended
May 2, 2003**

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
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STATEMENTS OF INCOME:

Net sales	\$ 36,925	\$ 1,569,064	\$ (36,925)	\$ 1,569,064
Cost of goods sold	-	1,117,158	-	1,117,158
Gross profit	36,925	451,906	(36,925)	451,906
Selling, general and administrative	33,290	352,590	(36,925)	348,955
Operating profit	3,635	99,316	-	102,951
Interest expense, net	6,926	2,485	-	9,411
Income (loss) before taxes on income	(3,291)	96,831	-	93,540
Provision (benefit) for taxes on income	(1,210)	34,418	-	33,208
Equity in subsidiaries' earnings, net of taxes	62,413	-	(62,413)	-
Net income	\$ 60,332	\$ 62,413	\$ (62,413)	\$ 60,332

**For the 13 weeks ended
May 3, 2002**

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
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STATEMENTS OF INCOME:

Net sales	\$ 46,452	\$ 1,389,412	\$ (46,452)	\$ 1,389,412
Cost of goods sold	-	1,009,120	-	1,009,120
Gross profit	46,452	380,292	(46,452)	380,292
Selling, general and administrative	41,561	302,195	(46,452)	297,304
Operating profit	4,891	78,097	-	82,988
Interest expense, net	4,004	6,428	-	10,432
Income before taxes on income	887	71,669	-	72,556
Provision for taxes on income	348	26,280	-	26,628
Equity in subsidiaries' earnings, net of taxes	45,389	-	(45,389)	-
Net income	\$ 45,928	\$ 45,389	\$ (45,389)	\$ 45,928

**For the 13 weeks ended
May 2, 2003**

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
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STATEMENTS OF CASH FLOWS:

Cash flows from operating activities:

Net income	\$ 60,332	\$ 62,413	\$ (62,413)	\$ 60,332
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	5,237	31,519	-	36,756
Deferred income taxes	1,821	6,679	-	8,500
Tax benefit from stock option exercises	224	-	-	224
Equity in subsidiaries' earnings, net	(62,413)	-	62,413	-
Change in operating assets and liabilities:				
Merchandise inventories	-	(77,670)	-	(77,670)
Other current assets	(3,569)	(86,622)	83,810	(6,381)

Accounts payable	15,535	82,963	(82,577)	15,921
Accrued expenses and other	(8,771)	(1,069)	642	(9,198)
Income taxes	2,327	(32,882)	-	(30,555)
Other	1,845	1,793	(1,875)	1,763
Net cash provided by (used in) operating activities	12,568	(12,876)	-	(308)
<i>Cash flows from investing activities:</i>				
Purchase of property and equipment	(2,606)	(27,523)	-	(30,129)
Proceeds from sale of property and equipment	10	56	-	66
Issuance of long-term notes receivable	(36,998)	(749)	37,747	-
Contribution of capital	(10)	-	10	-
Net cash used in investing activities	(39,604)	(28,216)	37,757	(30,063)
<i>Cash flows from financing activities:</i>				
Issuance of long-term obligations	749	36,998	(37,747)	-
Repayments of long-term obligations	(1,991)	(2,095)	-	(4,086)
Payment of cash dividends	(11,673)	-	-	(11,673)
Proceeds from exercise of stock options	694	-	-	694
Other financing activities	64	-	-	64
Issuance of common stock, net	-	10	(10)	-
Net cash provided by (used in) financing activities	(12,157)	34,913	(37,757)	(15,001)
Net decrease in cash and cash equivalents	(39,193)	(6,179)	-	(45,372)
Cash and cash equivalents, beginning of period	72,799	48,519	-	121,318
Cash and cash equivalents, end of period	\$ 33,606	\$ 42,340	\$ -	\$ 75,946

**For the 13 weeks ended
May 3, 2002**

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS:				
<i>Cash flows from operating activities:</i>				
Net income	\$ 45,928	\$ 45,389	\$ (45,389)	\$ 45,928
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	4,270	27,734	-	32,004
Deferred income taxes	7,822	32,037	-	39,859
Tax benefit from stock option exercises	689	-	-	689
Equity in subsidiaries' earnings, net	(45,389)	-	45,389	-
Change in operating assets and liabilities:				
Merchandise inventories	-	(3,426)	-	(3,426)
Other current assets	(7,567)	(72,003)	81,070	1,500
Accounts payable	87,778	11,963	(81,070)	18,671
Accrued expenses and other	(1,082)	(18,693)	-	(19,775)
Income taxes	(9,388)	(30,076)	-	(39,464)
Other	3,686	(4,852)	-	(1,166)
Net cash provided by (used in) operating activities	86,747	(11,927)	-	74,820
<i>Cash flows from investing activities:</i>				
Purchase of property and equipment	(2,941)	(31,871)	-	(34,812)
Proceeds from sale of property and equipment	1	57	-	58

Issuance of long-term notes receivable	(46,452)	-	46,452	-
Net cash used in investing activities	(49,392)	(31,814)	46,452	(34,754)
<i>Cash flows from financing activities:</i>				
Repayments of long-term obligations	38	(3,234)	-	(3,196)
Payment of cash dividends	(10,646)	-	-	(10,646)
Proceeds from exercise of stock options	1,374	-	-	1,374
Other financing activities	(1,699)	46,452	(46,452)	(1,699)
Net cash provided by (used in) financing activities	(10,933)	43,218	(46,452)	(14,167)
Net increase (decrease) in cash and cash equivalents	26,422	(523)	-	25,899
Cash and cash equivalents, beginning of period	217,539	43,986	-	261,525
Cash and cash equivalents, end of period	\$ 243,961	\$ 43,463	\$ -	\$ 287,424

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following text contains references to years 2003, 2002 and 2001, which represent fiscal years of Dollar General Corporation (the "Company") ending or ended, as applicable, January 30, 2004, January 31, 2003 and February 1, 2002, respectively. This discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the condensed consolidated financial statements and the notes thereto as of May 2, 2003.

Forward-Looking Statements

Except for specific historical information, many of the matters discussed in this Form 10-Q may express or imply projections of revenues or expenditures, statements of plans and objectives for future operations or statements of future economic performance. These, and similar statements, are forward-looking statements concerning matters that involve risks, uncertainties and other factors which may cause the actual performance of the Company to differ materially from those expressed or implied by these statements. All forward-looking information should be evaluated in the context of these risks, uncertainties and other factors. The words "believe," "anticipate," "project," "plan," "expect," "estimate," "objective," "forecast," "goal," "intend," "will likely result," or "will continue" and similar expressions generally identify forward-looking statements. The Company believes the assumptions underlying these forward-looking statements are reasonable; however, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those projected in the forward-looking statements. The factors that may result in actual results differing from such forward-looking information include, but are not limited to: the Company's ability to maintain adequate liquidity through its cash resources and credit facilities; the Company's ability to comply with the terms of its credit facilities (or obtain waivers for non-compliance); transportation and distribution delays or interruptions; the Company's ability to negotiate effectively the cost and purchase of merchandise; inventory risks due to shifts in market demand; changes in product mix; interruptions in suppliers' businesses; costs and potential problems and interruptions associated with implementation of new or upgraded systems and technology; fuel price and interest rate fluctuations; a deterioration in general economic conditions caused by acts of war or terrorism; temporary changes in demand due to weather patterns; seasonality of the Company's business; delays associated with building, opening and operating new stores; the impact of the Securities and Exchange Commission ("SEC") inquiry related to the restatement of certain of the Company's financial statements further described in Part II, Item 1 of this Form 10-Q; and other factors described from time to time in the Company's filings with the SEC, press releases and other communications.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Form 10-Q. Except as may be required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements contained herein to reflect events or circumstances occurring after the date of this Form 10-Q or to reflect the occurrence of unanticipated events. Readers are advised, however, to consult

any further disclosures the Company may make on related subjects in its Forms 10-Q, 8-K and 10-K filed with the SEC.

Results of Operations

The nature of the Company's business is modestly seasonal. Historically, sales in the fourth quarter have been higher than sales achieved in each of the first three quarters of the fiscal year. Expenses, and to a greater extent operating income, vary by quarter. Results of a period shorter than a full year may not be indicative of results expected for the entire year. Furthermore, the seasonal nature of the Company's business may affect comparisons between periods.

The Company has included in this document certain financial information not derived in accordance with generally accepted accounting principles ("GAAP"), such as selling, general and administrative ("SG&A") expenses, net income and earnings per share that exclude the impact of restatement-related items, and the Company's adjusted effective tax rate. The Company believes that this information is useful to investors as it indicates more clearly the Company's comparative year to year operating results. The Compensation Committee of the Company's Board of Directors may use this information for compensation purposes to ensure that employees are not inappropriately penalized or rewarded as a result of unusual items affecting the Company's financial statements. Management may also use this information to better understand the Company's underlying operating results. A reconciliation of this information to the most comparable GAAP measures has been included in the table at the end of this section or, with respect to the adjusted effective tax rate, below under the heading "*Provision for Taxes on Income*."

13 WEEKS ENDED MAY 2, 2003 AND MAY 3, 2002

Net Sales . Net sales for the 13 weeks ended May 2, 2003 were \$1.57 billion as compared against \$1.39 billion during the 13 weeks ended May 3, 2002, an increase of 12.9%. The increase resulted primarily from 598 net new stores and a same store sales increase of 4.2%. Same store sales increases are calculated based on the comparable calendar weeks in the prior year and include only those stores that were open both at the end of a fiscal period and the beginning of the preceding fiscal year. The same store sales increase can be attributed to the relatively strong performance of certain highly consumable and seasonal items including dog and cat food, various candies, bread and milk, automotive, plush products and lawn art. Net sales increases by category were as follows: highly consumable 16.3%; seasonal 15.8%; home products 4.4%; and basic clothing 0.1%.

Gross Profit . Gross profit during the current year period was \$451.9 million, or 28.8% of sales, versus \$380.3 million, or 27.4% of sales, during the comparable period in the prior year, an increase of 18.8%. The increase in the gross margin rate as a percentage of sales was due primarily to a higher average mark-up on inventory purchases and, to a lesser extent, a reduction in damaged product markdowns in the current year period. The higher average mark-up on inventory purchases during the current year period was due to a number of factors including, but not limited to, increased purchases of higher margin seasonal and home products items to ensure a stronger in-stock position in those categories than that achieved in the prior year, a reduction in the percentage of lower margin paper and household chemical purchases in the highly consumables category and the shifting of the purchase of certain products from domestic to imported sources. The Company attributes the reduction in damaged product markdowns to the emphasis that has been placed during the last 18 months on eliminating aged inventory from our stores. The Company's shrinkage provision was 3.10% in the current year period versus 3.07% in the prior year period.

Selling, General and Administrative ("SG&A") . SG&A expenses during the current year period were \$349.0 million, or 22.2% of sales, versus \$297.3 million, or 21.4% of sales, during the comparable period in the prior year, an increase of 17.4%. The Company recorded \$0.3 million of restatement-related SG&A expenses in the current year period as compared to \$5.3 million in restatement-related SG&A expenses during the comparable period in the prior year. Excluding restatement-related expenses, SG&A expenses would have been \$348.6 million, or 22.2% of sales, in the current year period, versus \$292.0 million, or 21.0% of sales, in the prior year period, an increase of 19.4%.

The increase in SG&A expenses, excluding restatement-related expenses, as a percentage of sales in the current year period is due primarily to percentage increases in various store-related expenses that were in excess of the

percentage increase in sales including, but not limited to, labor, occupancy, repairs and maintenance and utility costs. The increase in store labor costs reflects various actions taken to improve store conditions, including increasing labor hours and improving employee wages.

Interest Expense, Net . Net interest expense in the current year period was \$9.4 million, or 0.6% of sales, as compared to \$10.4 million, or 0.8% of sales, in the prior year period. The reduction in net interest expense is a result of lower average total debt outstanding in the current year period as compared with the prior year period.

Provision for Taxes on Income . The Company's effective tax rate was 35.5% in the current year period and 36.7% in the prior year period. The reduction in the effective tax rate in the current year period is primarily a result of a \$0.8 million adjustment to our state income tax valuation reserves related to a change in tax laws in the state of Mississippi. Excluding this benefit, the Company's effective tax rate during the current year period was 36.4%.

Net Income . Net income during the current year period was \$60.3 million, or 3.8% of sales, versus \$45.9 million, or 3.3% of sales, during the comparable period in the prior year, an increase of 31.4%. Diluted earnings per share in the current year period were \$0.18 versus \$0.14 in the prior year period. Excluding restatement-related expenses discussed above, diluted earnings per share in the current year period were \$0.18 versus \$0.15 in the prior year period.

Reconciliation of Non-GAAP Disclosures

(in thousands, except per share amounts)

	For the 13 weeks ended	
	May 2, 2003	May 3, 2002
Net income in accordance with GAAP	\$ 60,332	\$ 45,928
Restatement-related expenses in SG&A	329	5,319
Tax effect	(120)	(1,952)
Total restatement-related items, net of tax	209	3,367
Net income, excluding restatement-related items	\$ 60,541	\$ 49,295
Weighted average diluted shares outstanding	334,597	334,834
Diluted earnings per share, excluding restatement-related items	\$ 0.18	\$ 0.15
SG&A in accordance with GAAP	\$ 348,955	\$ 297,304
Less restatement-related expenses	329	5,319
SG&A, excluding restatement-related expenses	\$ 348,626	\$ 291,985
SG&A, excluding restatement-related expenses, % to sales	22.2%	21.0%

Liquidity and Capital Resources

Current Financial Condition / Recent Developments . At May 2, 2003, the Company's total debt (including the current portion of long-term obligations and short-term borrowings) was \$342.6 million, and the Company had \$75.9 million of cash and cash equivalents and \$1.34 billion of shareholders' equity, compared to \$346.5 million of total debt, \$121.3 million of cash and cash equivalents and \$1.29 billion of shareholders' equity at January 31, 2003.

At May 2, 2003, the Company had a \$450 million revolving credit facility consisting of a \$300 million three-year revolving credit facility and a \$150 million 364-day revolving credit facility (the "Credit Facilities"). The Company pays interest on funds borrowed under the Credit Facilities at rates that are subject to change based upon the rating of the Company's senior debt by independent agencies. The Company has two interest rate options, base rate (which is usually equal to prime rate) and LIBOR. At the Company's current ratings, the facility fees were 37.5 basis points and 32.5 basis points on the two facilities, respectively. The all-in drawn margin under the LIBOR option was LIBOR plus 237.5 basis points on both facilities. The all-in drawn margin under the base rate option was the base rate plus 125 basis points and the base rate plus 120 basis points on the two facilities, respectively. The Credit Facilities are secured by approximately 400 of the Company's retail stores, its headquarters and two of its distribution centers. As of May 2, 2003, the Company had no outstanding borrowings and \$22.3 million of standby letters of credit under the Credit Facilities. On May 5, 2003, the Company cancelled the 364-day revolving credit facility and has no immediate plans to replace it.

The Company has \$200 million (principal amount) of 8 5/8% unsecured notes due June 15, 2010. Interest on the notes is payable semi-annually on June 15 and December 15 of each year. The holders of the notes may elect to have their notes repaid on June 15, 2005, at 100% of the principal amount plus accrued and unpaid interest. The Company may seek, from time to time, to retire its outstanding notes through cash purchases on the open market, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

The Company believes that its existing cash balances, cash flows from operations, the three-year revolving credit facility and its ongoing access to the capital markets will provide sufficient financing to meet the Company's currently foreseeable liquidity and capital resource needs.

The Company plans to open approximately 650 stores during the fiscal year ending January 30, 2004. The Company anticipates funding the costs associated with such openings by cash flows from operations and/or by existing credit facilities.

On March 13, 2003, the Board of Directors authorized the Company to repurchase up to 12 million shares of its outstanding common stock. Purchases may be made in the open market or in privately negotiated transactions from time to time subject to market conditions. This authorization expires March 13, 2005. As of May 2, 2003, the Company had not purchased any of its shares pursuant to the current authorization.

Cash flows provided by (used in) operating activities . Net cash used in operating activities totaled \$0.3 million during the first 13 weeks of 2003, as compared to a \$74.8 million source of cash during the comparable period in the prior year. The primary sources of cash in 2003 were the Company's net income, as adjusted for the non-cash depreciation and amortization expense, which together totaled \$97.1 million, and an increase in accounts payable of \$15.9 million as a result of the timing of payments to vendors. Significant uses of cash in the current year period include a \$77.7 million increase in inventory in preparation for the spring and summer selling seasons and a \$30.6 million reduction in the net income taxes payable. The Company has made improving its inventory productivity statistics a priority. Inventory turns have improved on a rolling 12-month basis from 3.5 times to 3.9 times as measured at May 3, 2002 and May 2, 2003, respectively. The reduction in the net income taxes payable is due largely to an approximately \$52.7 million payment of estimated federal income taxes for 2002 that was made during the current year period.

The primary source of net cash from operating activities during the prior year period was the Company's net income, as adjusted for the non-cash depreciation and amortization expense, which together totaled \$77.9 million. Another significant source of cash in the prior year period was an increase in accounts payable of \$18.7 million. The payment of the Company's management and store bonuses for the 2001 fiscal year, which was the principal factor resulting in a decrease in accrued expenses of \$19.8 million, was a significant use of cash during the prior year period.

Cash flows used in investing activities . Net cash used in investing activities during the first 13 weeks of 2003 totaled \$30.1 million, as compared to a \$34.8 million use of cash during the comparable period in the prior year. The

\$30.1 million spent in the current year period consisted primarily of approximately \$25.7 million of store related expenditures including \$13.0 million for leasehold and fixture costs for new stores and \$8.9 million for various fixtures for existing stores. The \$34.8 million spent in the prior year period consisted primarily of \$8.8 million for new stores, \$9.9 million for various store-related technology projects and \$9.5 million for distribution and transportation expenditures.

Cash flows used in financing activities . Net cash used in financing activities during the first 13 weeks of 2003 was \$15.0 million, which consisted principally of \$11.7 million in dividends and \$4.1 million of debt repayments. Net cash used in financing activities during the first 13 weeks of 2002 was \$14.2 million, which consisted principally of \$10.6 million in dividends and \$3.2 million of debt repayments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have no material changes to the disclosures relating to this item that are set forth in our report on Form 10-K for the fiscal year ended January 31, 2003.

ITEM 4. CONTROLS AND PROCEDURES

As of a date within 90 days prior to the filing of this quarterly report on Form 10-Q, the Company, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective for the purposes set forth in the definition thereof in Exchange Act Rule 13a-14(c). There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their most recent evaluation.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Restatement-Related Proceedings

As previously disclosed in the Company's periodic reports filed with the Securities and Exchange Commission (the "SEC"), the Company restated its audited financial statements for fiscal years 1999 and 1998, and certain unaudited financial information for fiscal year 2000, by means of its Form 10-K for the fiscal year ended February 2, 2001, which was filed on January 14, 2002. The SEC is conducting an investigation into the circumstances giving rise to the restatement. The Company is cooperating with this investigation by providing documents, testimony and other information to the SEC. At this time, the Company is unable to predict the outcome of this investigation and the ultimate effects on the Company, if any.

In addition, as previously discussed in the Company's periodic reports filed with the SEC, the Company settled in the second quarter of 2002 the lead shareholder derivative action relating to the restatement that had been filed in Tennessee State Court. All other pending state and federal derivative cases were subsequently dismissed during the third quarter of fiscal 2002. The settlement of the shareholder derivative lawsuits resulted in a net payment to the Company, after attorney's fees payable to the plaintiffs' counsel, of approximately \$25.2 million, which was recorded as income during the third quarter of 2002. The Company also settled the federal consolidated restatement-related class action lawsuit in the second quarter of fiscal 2002. The \$162 million settlement was paid in the first half of fiscal 2002, but was previously expensed in the fourth quarter of 2000. The Company received from its insurers \$4.5 million in respect of such settlement in July 2002, which was recorded as income during the second quarter of 2002.

Plaintiffs representing fewer than 1% of the shares traded during the class period chose to opt out of the federal class action settlement and may elect to pursue recovery against the Company individually. In the fourth quarter of

2002, the Company settled and paid a claim by one such plaintiff and recognized an expense of \$0.2 million in respect of that agreement. To the Company's knowledge, no other litigation has yet been filed or threatened by parties who opted out of the class action settlement. The Company cannot predict whether any additional litigation will be filed or estimate the potential liabilities associated with such litigation, but it does not believe that the resolution of any such litigation will have a material adverse effect on the Company's financial position or results of operations.

Other Litigation

On March 14, 2002, a complaint was filed in the United States District Court for the Northern District of Alabama to commence a purported collective action against the Company on behalf of current and former salaried store managers. The complaint alleges that these individuals were entitled to overtime pay and should not have been classified as exempt employees under the Fair Labor Standards Act ("FLSA"). Plaintiffs seek to recover overtime pay, liquidated damages, declaratory relief and attorneys' fees. This action is still in the initial discovery phase and the court has not found that the case should proceed as a collective action. The Company believes that its store managers are and have been properly classified as exempt employees under the FLSA and that the action is not appropriate for collective action treatment. The Company intends to vigorously defend the action. However, no assurances can be given that the Company will be successful in defending this action on the merits or otherwise, and, if not, the resolution could have a material adverse effect on the Company's financial position or results of operations.

The Company is involved in other legal actions and claims arising in the ordinary course of business. The Company currently believes that such litigation and claims, both individually and in the aggregate, will be resolved without a material effect on the Company's financial position or results of operations. However, litigation involves an element of uncertainty. Future developments could cause these actions or claims to have a material adverse effect on the Company's financial position or results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

On April 2, 2003, the Company awarded 78,865 shares of restricted stock, and an option to purchase 500,000 shares of common stock at an exercise price of \$12.68 per share, to David A. Perdue, the Company's newly hired Chief Executive Officer. The restricted stock and the option were awarded to Mr. Perdue in a private offering exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, as a material inducement to his employment with the Company. These grants were not made under the Company's stock incentive plan. The Company received no additional consideration for the grants of these awards.

The restricted stock shall vest as to 15,773 shares annually over a five-year period with the first vesting date being April 2, 2004, subject to alternate vesting in the case of death, disability or termination of employment. The option shall vest as to 166,666 shares on April 2, 2005 and as to 333,334 shares on April 2, 2006, subject to alternate vesting in the case of death, disability or termination of employment.

In addition to the restricted stock and option awards discussed above, Mr. Perdue was awarded on April 2, 2003 an option to purchase 500,000 shares of common stock at an exercise price of \$12.68 per share. This option, however, was granted pursuant to the Company's 1998 Stock Incentive Plan. The Company previously registered shares available for issuance pursuant to the 1998 Stock Incentive Plan with the SEC via Form S-8 filed on September 25, 1998.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) See the Exhibit Index immediately following the certifications pages.
- (b)
 - (1) A Current Report on Form 8-K, dated February 6, 2003, was furnished to the SEC pursuant to Item 9 in connection with a news release regarding January sales results and the February sales outlook.
 - (2) A Current Report on Form 8-K, dated March 6, 2003, was furnished to the SEC pursuant to Item 9 in connection with a news release regarding February sales results,

the March sales outlook, and the conference call regarding fourth quarter earnings.

- (3) A Current Report on Form 8-K, dated March 13, 2003, was furnished to the SEC pursuant to Item 9 in connection with a news release regarding the declaration of a dividend and the authorization of a stock repurchase.
- (4) A Current Report on Form 8-K, dated March 17, 2003, was furnished to the SEC pursuant to Item 9 in connection with a news release and a conference call with respect to earnings for the 2002 fourth quarter and the 2002 fiscal year, and guidance for the 2003 fiscal year.
- (5) A Current Report on Form 8-K, dated March 19, 2003, was furnished to the SEC pursuant to Item 9 regarding officer certifications with respect to the Annual Report on Form 10-K for the fiscal year ended January 31, 2003.
- (6) A Current Report on Form 8-K, dated April 3, 2003, was furnished to the SEC pursuant to Item 9 in connection with a news release regarding the hiring of David A. Perdue and the decision of Cal Turner not to stand for re-election to the Board.
- (7) A Current Report on Form 8-K, dated April 7, 2003, was furnished to the SEC pursuant to Item 12 regarding the presentation of a reconciliation of certain previously disclosed non-GAAP financial information.
- (8) A Current Report on Form 8-K, dated April 10, 2003, was furnished to the SEC pursuant to Item 9 in connection with a news release regarding March sales results and the April sales outlook.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, both on behalf of the Registrant and in his capacity as principal financial and accounting officer of the Registrant.

DOLLAR GENERAL CORPORATION

Date: May 29, 2003

By: /s/ James J. Hagan
James J. Hagan
Executive Vice President and Chief Financial Officer

CERTIFICATIONS

I, David A. Perdue, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dollar General Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining

disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 29, 2003

/s/ David A. Perdue
David A. Perdue
Chief Executive Officer

I, James J. Hagan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dollar General Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90

days prior to the filing date of this quarterly report (the “Evaluation Date”); and

- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and

6. The registrant’s other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 29, 2003

/s/ James J. Hagan
James J. Hagan
Executive Vice President and
Chief Financial Officer

EXHIBIT INDEX

- 10.1 Employment Agreement, effective as of April 2, 2003, by and between Dollar General Corporation and David A. Perdue.
- 10.2 Supplemental Executive Retirement Plan for David A. Perdue, effective April 2, 2003.
- 10.3 Restricted Stock Agreement, dated April 2, 2003, by and between Dollar General Corporation and David A. Perdue.
- 10.4 Nonqualified Stock Option Agreement, dated April 2, 2003, by and between Dollar General Corporation and David A. Perdue.
- 10.5 Resignation Agreement, dated May 7, 2003, by and between Dollar General Corporation and Donald S. Shaffer.
- 10.6 Memorandum of Understanding, dated May 7, 2003, from Dollar General Corporation to Donald S. Shaffer.
- 99.1 Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (“Agreement”), effective as of April 2, 2003, the date Employee commences services for the Company (“Effective Date”), is made and entered into by and between **DOLLAR GENERAL CORPORATION** (the “Company”) and David A. Perdue (“Employee”).

WITNESSETH:

WHEREAS, the Company desires to employ Employee upon the terms and subject to the conditions hereinafter set forth, and Employee desires to accept such employment;

NOW, THEREFORE, for and in consideration of the premises, the mutual promises, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

Employment Terms

1. **Employment** . Subject to the terms and conditions of this Agreement, the Company agrees to employ Employee as Chief Executive Officer.
2. **Term** . The term of this Agreement shall be until March 31, 2007 (“Term”), unless otherwise terminated pursuant to Paragraphs 6, 7, 8, 9, 10 or 11 hereof.
3. **Position, Duties and Administrative Support** .
 - a. **Position** . Employee shall serve as Chief Executive Officer and as such will also serve as an employee Director on the Board of Directors of the Company. Employee shall report to the Board of Directors and perform such duties and responsibilities as may be prescribed from time-to-time by the Board of Directors, which shall be consistent with the responsibilities of similarly situated executives of comparable companies in similar lines of business.
 - b. **Full-Time Efforts** . Employee shall perform and discharge faithfully, diligently and to the best of his ability such duties and responsibilities and shall devote his full-time efforts to the business and affairs of the Company. Employee agrees to promote the best interests of the Company and to take no action that in any way damages the public image or reputation of the Company, its subsidiaries or its affiliates.
 - c. **Administrative Support** . Employee shall be provided with office space and administrative support commensurate with his position as Chief Executive Officer of the Company.
 - d. **No Interference With Duties** . Employee shall not devote time to other activities which would inhibit or otherwise interfere with the proper performance of his duties, and shall not be directly or indirectly concerned or interested in any other occupation, activity or interest in any business whatsoever other than by reason of holding an interest as a minority shareholder, securities or debenture holder in a corporation quoted on a nationally recognized exchange provided , however , that it shall not be a violation of this Agreement for

Employee to (i) devote reasonable periods of time to charitable and community activities and industry or professional activities, (ii) to serve on the board of directors of one active for-profit company other than the Company during the first two years of the Term and, thereafter, to serve on the boards of directors of up to two active for-profit companies other than the Company; provided, however, that in its sole discretion the Board of Directors of the Company may permit Employee to serve on additional boards as it may determine from time to time, and/or (iii) manage personal business interests and investments, so long as such activities do not interfere with the performance of Employee's responsibilities under this Agreement.

4. **Work Standard** . Employee hereby agrees that he shall at all times comply with and abide by all terms and conditions set forth in this Agreement, and all applicable work policies, procedures and rules as may be issued by Company. Employee also agrees that he shall comply with all federal, state and local statutes, regulations and public ordinances governing the performance of his duties hereunder.

5. **Compensation and Benefits** .

a. **Base Salary** . Subject to the terms and conditions set forth in this Agreement, the Company shall pay Employee, and Employee shall accept, an annual salary ("Base Salary") in the amount of Nine Hundred Thousand and No/100 Dollars (\$900,000.00). The Base Salary shall be paid in accordance with the Company's normal payroll practices and may be increased from time to time at the sole discretion of the Board of Directors of the Company.

b. **Incentive, Savings and Retirement Plans** . During the Term, Employee shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to senior executive officers of the Company ("Peer Employees"), and on the same basis as such Peer Employees, except as to benefits that are specifically applicable to Employee pursuant to this Agreement. Without limiting the foregoing, the following provisions shall apply with respect to Employee:

(i) **Incentive Bonus** . Employee's incentive compensation for the Term of this Agreement shall be determined under the Company's bonus program for executives established by the Board of Directors of the Company in its discretion. For the 2003 fiscal year, Employee shall receive a bonus equal to at least 50% of his Base Salary and is eligible to receive his target bonus of 80% of Base Salary up to a maximum payout of 160% of Base Salary. For the period of the Term after fiscal year 2003, Employee's annual target bonus shall be 80% of his Base Salary with an opportunity to achieve a bonus payout of up to 160% of Base Salary. The actual bonus paid pursuant to this Paragraph 5(b)(i) shall be based on performance criteria established by the Board of Directors of the Company in accordance with the terms and conditions of the bonus program for executives.

(ii) **Stock Options** . The Company shall grant to Employee on the Effective Date under the 1998 Stock Incentive Plan, as amended from time to time, or any successor plan thereof five hundred thousand (500,000) non-qualified stock options to purchase Company stock (the "Initial Options"). In addition, as an inducement to accept employment with the Company, the Company shall grant on the

Effective Date and pursuant to resolutions of the Board of Directors of the Company another five hundred thousand (500,000) non-qualified stock options to purchase Company stock (the "Inducement Grant"). All options granted pursuant to this Paragraph 5(b)(ii) shall have a term of ten years and pursuant to the terms of grant agreements shall generally vest based on a schedule of three hundred thirty-three thousand three hundred thirty-three (333,333) shares, three hundred thirty-three thousand three hundred thirty-three (333,333) shares and three hundred thirty-three thousand three hundred thirty-four (333,334) shares respectively on each successive annual anniversary of the date of grant. No later than the first anniversary of the Effective Date, the Company shall file with the Securities and Exchange Commission a registration statement on Form S-8 covering the options in the Inducement Grant. Except as otherwise provided herein, all unvested options shall be forfeited upon Employee's termination prior to any respective anniversary date unless the Company and Employee otherwise agree in writing. Employee shall not be eligible to receive another grant of options until the Board of Directors meeting during the Company's 2006 fiscal year in which options are regularly granted to employees under the 1998 Stock Incentive Plan, as amended from time to time, or any successor plan thereof, unless the Board of Directors of the Company determines otherwise in its sole discretion.

(iii) Signing Bonus.

(A) Restricted Stock. The Company shall grant to Employee on the Effective Date pursuant to resolutions of the Board of Directors of the Company that number of shares of restricted common stock of the Company having a fair market value equal to \$1,000,000, determined by reference to the closing price of such stock as reported on the New York Stock Exchange as of the day of grant. Subject to the following sentence, such restricted stock shall vest ratably over five (5) years (i.e. 20% per year) as of each successive annual anniversary of the date of grant. No later than the first anniversary of the Effective Date, the Company shall file with the Securities and Exchange Commission a registration statement on Form S-8 covering the restricted stock granted pursuant to this paragraph 5(b)(iii)(A). Except as otherwise provided herein, all unvested restricted stock shall be forfeited upon Employee's termination of employment with the Company prior to any respective anniversary date unless the Company and Employee otherwise agree in writing.

(B) Cash. Within ten (10) business days, the Company shall pay to Employee on the Effective Date of this Agreement Two Hundred Seventy Thousand Dollars and No/100 (\$270,000.00).

(iv) Supplemental Executive Retirement Plan. In lieu of participation in the Company's supplemental executive retirement plan for key employees, the Company shall enter into an individual arrangement with Employee providing a mutually agreeable SERP benefit ("SERP"). Such SERP shall provide benefits consistent with the formula and other terms outlined on Exhibit A to this Agreement.

c. Welfare Benefit Plans. During the Term, Employee and Employee's eligible dependents shall be eligible for participation in, and shall receive all benefits under, the welfare benefit plans, practices, policies and programs provided by the Company (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) ("Welfare Plans") to the extent applicable generally to Peer Employees. Without limiting the foregoing, Employee shall be provided with life insurance which in the aggregate provides a death benefit of not less than two and one-half (2.5) times his Base Salary.

d. Vacation. Upon Employee's employment date and each annual anniversary thereafter through the Term, Employee shall be granted four (4) weeks' paid vacation. Any granted but unused vacation as of an annual anniversary date shall be forfeited as of such applicable date.

e. Business Expenses. Employee shall be reimbursed for all reasonable business expenses incurred in carrying out the work hereunder. Employee shall follow the Company's expense procedures that generally apply to other Company employees in accordance with the policies, practices and procedures of the Company to the extent applicable generally to Peer Employees.

f. Perquisites. Employee shall be entitled to receive such executive perquisites, fringe and other benefits as are provided to the senior most executives and their families under any of the Company's plans and/or programs in effect from time to time and such other benefits as are customarily available to executives of the Company and their families. Perquisites shall include up to thirty (30) hours annually of personal use of the Company plane provided that Employee shall reimburse the Company for such use pursuant to the Company's Aircraft Lease Agreement.

g. Moving Expenses. The Company will reimburse Employee for reasonable and customary moving expenses directly related to Employee's relocation from Sudbury, Massachusetts to the Nashville, Tennessee area in accordance with the terms of the Company's relocation policy.

h. Accounting and Legal Fees. Within, ten (10) days following receipt of appropriate written documentation, the Company will reimburse Employee up to \$20,000 for reasonable and customary accounting and legal fees and expenses incurred by Employee with respect to the negotiation and execution of this Agreement.

6. Termination for Cause. This Agreement may be terminated immediately at any time by the Company without any liability owing to Employee or Employee's beneficiaries under this Agreement, except Base Salary through the date of termination and benefits under any plan or agreement covering Employee which shall be governed by the terms of such plan or agreement, under the following conditions, each of which shall constitute "Cause" or "Termination for Cause":

a. Any act by Employee involving fraud and any breach by Employee of applicable regulations of competent authorities in relation to trading or dealing with stocks, securities, investments and the like or any act by Employee resulting in an investigation by the Securities and Exchange Commission which, in each case, the

Board of Directors determines in its sole and absolute discretion materially adversely affects the Company or Employee's ability to perform his duties under this Agreement;

- b. Attendance at work in a state of intoxication or otherwise being found in possession at his place of work of any prohibited drug or substance, possession of which would amount to a criminal offense;
- c. Assault or other act of violence against any employee of the Company or other person during the course of his employment;
- d. Conviction of any felony or misdemeanor involving moral turpitude;
- e. The continued failure of Employee to perform substantially Employee's duties with the Company (other than any such failure resulting from incapacity due to Disability, and specifically excluding any failure by Employee, after good faith, reasonable and demonstrable efforts, to meet performance expectations for any reason), after a written demand for substantial performance is delivered to Employee by the Board of Directors of the Company which specifically identifies the manner in which such Board believes that Employee has not substantially performed Employee's duties.

The cessation of employment of Employee shall not be deemed to be for Cause unless and until there shall have been delivered to Employee a copy of a resolution duly adopted by the affirmative vote of not less than three-fourths of the entire membership of the Board of Directors of the Company at a meeting of such Board of Directors called and held for such purpose (after reasonable notice is provided to Employee and Employee is given an opportunity, together with counsel, to be heard before such Board of Directors), finding that, in the good faith opinion of such Board of Directors, Employee is guilty of the conduct described in any one or more of subparagraphs (a) through (e) above, and specifying the particulars thereof in detail.

7. Termination Upon Death . Notwithstanding anything herein to the contrary, this Agreement shall terminate immediately upon Employee's death, and the Company shall have no further liability to Employee or his beneficiaries under this Agreement, other than for payment of Accrued Obligations (as defined in Paragraph 10(a)(i)) and the timely payment or provision of Other Benefits (as defined in Paragraph 10(e)), including without limitation benefits under such plans, programs, practices and policies relating to death benefits, if any, as are applicable to Employee on the date of his death. In addition, upon Employee's death during the Term, all of Employee's stock options, restricted shares and other incentive awards from the Company shall vest and become fully exercisable, any such options or other rights in the nature of awards that may be exercised shall remain exercisable for one year from the date of death or the earlier expiration date of such award.

8. Disability . If the Company determines in good faith that the Disability of Employee has occurred during the Term (pursuant to the definition of Disability set forth below), it may give to Employee written notice of its intention to terminate Employee's employment. In such event, Employee's employment with the Company shall terminate effective on the 30th day after receipt of such written notice by Employee (the "Disability Effective Date"), provided that, within the 30 days after such receipt, Employee shall not have returned to full-time performance of Employee's duties. If Employee's employment is terminated by reason of his Disability, this Agreement shall

terminate without further obligations to Employee, other than for payment of Accrued Obligations (as defined in Paragraph 10(a)(i)) and the timely payment or provision of Other Benefits (as defined in Paragraph 10(e)), including without limitation benefits under such plans, programs, practices and policies relating to disability benefits, if any, as are applicable to Employee on the Disability Effective Date. In addition, upon Employee's Disability during the Term:

a. All of Employee's stock options, restricted shares and other incentive awards from the Company shall vest and become fully exercisable, any such options or other rights in the nature of awards that may be exercised shall remain exercisable for three years from the Disability Effective Date or the earlier expiration date of such award, and

b. Notwithstanding the foregoing, Employee will be treated for purposes of the SERP as though the Employee continued employment with the Company during the period of Disability until such time as the Employee is entitled the full 25% benefit under the SERP and such SERP benefit is payable on an unreduced basis. For purposes of calculating his Final Average Compensation under the SERP, Employee's Base Salary as in effect on the date of termination shall be used as his Base Salary for such additional years of credited service, and Employee's Applicable Annual Bonus (as defined in Paragraph 10(a)(ii) below) shall be used as his annual incentive bonus for such additional years of credited service.

For purposes of this Agreement, "Disability" shall mean: (i) a long-term disability entitling Employee to receive benefits under the Company's long-term disability plan as then in effect; or (ii) if no such plan is then in effect or the plan does not apply to Employee, the inability of Employee, as determined by the Board of Directors of the Company, to perform the essential functions of his regular duties and responsibilities, with or without reasonable accommodation, due to a medically determinable physical or mental illness which has lasted (or can reasonably be expected to last) for a period of six consecutive months. At the request of Employee or his personal representative, the Board of Directors' determination that the Disability of Employee has occurred shall be certified by two physicians mutually agreed upon by Employee, or his personal representative, and the Company. Failing such independent certification (if so requested by Employee), Employee's termination shall be deemed a termination by the Company without Cause and not a termination by reason of his Disability.

9. Employee's Termination of Employment. Employee's employment may be terminated at any time by Employee for Good Reason or no reason. For purposes of this Agreement, "Good Reason" shall mean:

a. Without the written consent of Employee, the assignment to Employee of any duties inconsistent in any material respect with Employee's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect on the Effective Date, or any other action by the Company which results in a demonstrable diminution in such position, authority, duties or responsibilities (including without limitation a continuing shift of material responsibility from the Chief Executive Officer position to the Chairman position if Employee does not serve in both capacities), excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly

after receipt of notice thereof given by Employee;

b. A reduction by the Company in Employee's Base Salary or target bonus level as in effect on the Effective Date or as the same may be increased from time to time;

c. The failure by the Company to continue in effect any "pension plan or arrangement" or any "compensation plan or arrangement" in which Employee participates or the elimination of Employee's participation in any such plan (except for across-the-board plan changes or terminations similarly affecting at least ninety-five percent (95%) of all executive employees of the Company, provided, however, that it is agreed that the SERP provided for in Paragraph 5(b)(iv) is not subject to this exception);

d. The Company's requiring Employee, without his consent, to be based at any office or location other than in metropolitan Nashville, Tennessee;

e. The material breach by the Company of any provision of this Agreement; or

f. The failure of any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

Good Reason shall not include Employee's death or Disability. Employee's continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder, provided that Employee raises to the attention of the Board of Directors of the Company any circumstance he believes in good faith constitutes Good Reason within ninety (90) days after occurrence or be foreclosed from raising such circumstance thereafter. The Company shall have an opportunity to cure any claimed event of Good Reason (other than under subparagraph (f) above) within 30 days of notice from Employee.

If Employee terminates his employment for Good Reason, upon the execution and effectiveness of the Release attached hereto and made a part hereof (the "Release"), he shall be entitled to the same benefits he would be entitled to under Paragraph 10 if Terminated without Cause or Paragraph 11 if terminated after a Change in Control, but not both, as applicable. If Employee terminates his employment without Good Reason, this Agreement shall terminate without further obligations to Employee, other than for payment of Accrued Obligations (as defined in Paragraph 10(a)(i)) and the timely payment or provision of Other Benefits (as defined in Paragraph 10(e)).

10. Termination without Cause . If Employee's employment is terminated by the Company without Cause prior to the expiration of the Term (it being understood by the parties that termination by death, Disability or expiration of this Agreement shall not constitute termination without Cause), then Employee shall be entitled to the following benefits upon the execution and effectiveness of the Release; provided, however, that Employee shall not be entitled to payments under this Paragraph 10 if he is entitled to payments under Paragraph 11:

a. The Company shall pay to Employee commencing after the later of the date of termination or the execution and effectiveness of the Release, the aggregate of the following amounts:

(i) in a lump sum in cash within 30 days, the sum of (A) Employee's Base Salary through the date of termination to the extent not theretofore paid, (B) any accrued expenses and vacation pay to the extent not theretofore paid, and (C) unless Employee has elected a different payout date in a prior deferral election, any compensation previously deferred by Employee (together with any accrued interest or earnings thereon) to the extent not theretofore paid (the sum of the amounts described in subparagraphs (A), (B) and (C) shall be referred to in this Agreement as the "Accrued Obligations");

(ii) in installment ratably over twenty-four (24) months in accordance with the Company's normal payroll cycle and procedures, the amount equal to the two and one-half (2.5) times the sum of (A) Employee's annual Base Salary in effect as of the date of termination, and (B) Employee's Applicable Annual Bonus (as defined below). For purposes of this Agreement, "Applicable Annual Bonus" means the greater of Employee's actual annual incentive bonus from the Company earned in the fiscal year immediately preceding the fiscal year in which Employee's termination date falls or Employee's target annual incentive bonus (i.e., 80% of Base Salary) for the year in which Employee's termination date falls; and

(iii) With respect to Paragraph 10(a)(ii), the Company may, at any time and in its sole discretion, make a lump sum payment of all amounts, or all remaining amounts, due to Employee; and

b. Employee's stock options and restricted shares granted pursuant to Paragraphs 5(b)(ii) and 5(b)(iii) respectively shall fully vest and shall remain exercisable as provided in the applicable agreement evidencing such awards; and

c. Employee will be treated for purposes of the SERP as having five (5) additional years of continuous service with the Company as determined by the SERP service formula set forth in Exhibit A of this Agreement. For purposes of calculating his Final Average Compensation under the SERP, Employee's Base Salary as in effect on the date of termination shall be used as his Base Salary for such additional years of credited service, and Employee's Applicable Annual Bonus (as defined in Paragraph 10(a)(ii) above) shall be used as his annual incentive bonus for such additional years of credited service; and

d. For thirty (30) months after Employee's date of termination, the Company shall pay the premium for Employee's participation in the Company's retiree medical plan in accordance with his elected coverage in place at the time of termination of employment; provided, however, that if the Company's retiree medical insurance benefits in effect as of Employee's date of termination are materially less favorable to Employee than the Company's retiree medical benefits as in effect on the Effective Date, the Company shall, at the request of Employee, pay for or provide medical benefits to Employee no less favorable than the Company's retiree medical benefits in effect as of the Effective Date; and provided, further, that if Employee becomes re-employed with another employer and is eligible to receive medical or other welfare benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. If such payment of premiums by

the Company is taxable to Employee, the Company shall make an additional payment to Employee equal to local, state and federal taxes owed on such premium payments; and

e. To the extent not theretofore paid or provided, the Company shall timely pay or provide to Employee any other accrued amounts or accrued benefits required to be paid or provided or which Employee is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company (such other amounts and benefits shall be referred to in this Agreement as the “Other Benefits”).

11. Change in Control.

a. Defined Terms.

(i) “Beneficial Ownership” shall mean beneficial ownership within the meaning of Rule 13d-3 promulgated under the Exchange Act.

(ii) “Business Combination” shall mean a reorganization, merger or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company.

(iii) “Change in Control” shall mean the occurrence of any of the following:

(A) The Consummation of an acquisition after which any Person shall have Beneficial Ownership of 35% or more of the Voting Securities of the Company; provided, however, that for purposes of the preceding sentence, the following acquisitions of Voting Securities of the Company shall not constitute a Change in Control:

1. ownership or an acquisition by Cal Turner, James Stephen Turner or a member or members of his or their immediate family or any trust, partnership, foundation or similar entity for the exclusive benefit of any such persons (collectively, the “Turner Family Interests”);

2. any acquisition directly from the Company;

3. any acquisition by the Company or an affiliate which the Company Controls;

4. any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or a subsidiary of the Company;

5. any acquisition by a qualified pension plan or publicly held mutual fund;

6. any acquisition by the Employee or a Group that includes the Employee;

or

7. any Business Combination which would not otherwise constitute a Change in Control because of the application of clauses (1), (2) and (3) of Paragraph 11(a)(iii)(C).

(B) A change in the composition of the Board of Directors of the Company whereby

individuals who constitute the Incumbent Board cease for any reason to constitute at least a majority of the Board of Directors; or

(C) Consummation of a Business Combination, unless, immediately following such Business Combination, all of the following three conditions are met:

(1) all or substantially all of the individuals and entities who held Beneficial Ownership, respectively, of the Voting Securities of the Company immediately prior to such Business Combination beneficially own, directly or indirectly, 65% or more of the combined voting power of the Voting Securities of the corporation surviving or resulting from such Business Combination, (including, without limitation, a corporation which as a result of such transaction holds Beneficial Ownership of all or substantially all of the Voting Securities of the Company or all or substantially all of the Company's assets) (such surviving or resulting corporation to be referred to as "Surviving Company"), in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Voting Securities of the Company;

(2) no Person (excluding any corporation resulting from such Business Combination, the Turner Family Interests, any qualified pension plan, a publicly held mutual fund, the Employee or a Group including the Employee, or an employee benefit plan (or related trust) of the Company or Surviving Company) holds Beneficial Ownership, directly or indirectly, of 35% or more of the combined voting power of the then outstanding Voting Securities of Surviving Company except to the extent that such ownership existed immediately prior to the Business Combination; and

(3) at least a majority of the members of the board of directors of the Surviving Company were members of the Incumbent Board at the earlier of the date of execution of the initial agreement, or of the action of the Board of Directors of the Company, providing for such Business Combination.

(iv) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(v) "Consummation" shall mean the completion of the final act necessary to complete a transaction as a matter of law, including, but not limited to, any required approvals by the corporation's shareholders and board of directors, the transfer of legal and beneficial title to securities or assets and the final approval of the transaction by any applicable domestic or foreign governments or governmental agencies.

(vi) "Control" shall mean, in the case of a corporation, Beneficial Ownership of more than 50% of the combined voting power of the corporation's Voting Securities, or in the case of any other entity, Beneficial Ownership of more than 50% of such entity's voting equity interests.

(vii)

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

(viii) “Group” shall have the meaning set forth in Section 14(d) of the Exchange Act.

(ix) “Incumbent Board” shall mean those individuals who constitute the Board of Directors of the Company as of the Effective Date of this Agreement plus any individual who shall become a director subsequent to such date whose election or nomination for election by the shareholders was approved by a vote of at least 75% of the directors then comprising the Incumbent Board. Notwithstanding the foregoing, no individual who shall become a director of the Board of Directors of the Company subsequent to the Effective Date whose initial assumption of office occurs as a result of an actual or threatened election contest (within the meaning of Rule 14a-11 of the Regulations promulgated under the Exchange Act) with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors shall be a member of the Incumbent Board.

(x) “Person” shall mean any individual, entity or group within the meaning of Section 13(d)(3) or 14(d)(2) of Exchange Act.

(xi) “Voting Securities” shall mean the outstanding voting securities of a company entitling the holder thereof to vote generally in the election of such company’s directors.

b. Eligibility. Except as otherwise provided herein, if Employee is involuntarily terminated by the Company at any time during the two year period following a Change in Control for reasons other than Cause or he shall voluntarily terminate his employment with the Company for Good Reason as defined in Paragraph 9 at any time during the two year period following a Change in Control, Employee shall be entitled to receive the benefits described in this Paragraph 11.

c. Benefits. Subject to the execution and effectiveness of the Release, Employee shall be entitled to receive the following benefits:

(i) The Company shall pay to Employee, in a lump sum in cash within 30 days after the later of the date of termination or the execution and effectiveness of the Release, the aggregate of the following amounts:

(A) the Accrued Obligations (as defined in Paragraph 10(a)(i)); and

(B) the amount equal to three (3) times the sum of (x) Employee’s annual Base Salary as in effect as of the date of termination or, if higher, as of the date immediately preceding the Change in Control, and (y) Employee’s Applicable Annual Bonus (as defined in Paragraph 10(a)(ii)); and

(ii) All of Employee’s stock options, restricted shares and other incentive awards from the Company shall fully vest and shall remain exercisable in accordance with the terms of the 1998 Stock Incentive Plan, as amended from time to time, or any successor plan thereof whether or not granted

under such plan; and

(iii) Employee will be treated for purposes of the SERP as having five (5) additional years of continuous service with the Company as determined by the SERP service formula set forth in Exhibit A of this Agreement. For purposes of calculating his Final Average Compensation under the SERP, Employee's Base Salary as in effect on the date of termination or, if higher, as of the date immediately preceding the Change in Control, shall be used as his Base Salary for such additional years of credited service, and Employee's Applicable Annual Bonus (as defined in Paragraph 10(a)(ii) above) shall be used as his annual incentive bonus for such additional years of credited service; and

(iv) For thirty-six (36) months after Employee's date of termination the Company shall pay the premium for Employee's participation in the Company's retiree medical plan in accordance with his elected coverage in place at the time of termination of employment; provided, however, that if the Company's retiree medical insurance benefits in effect as of Employee's date of termination are materially less favorable to Employee than the Company's retiree medical benefits as in effect on the Effective Date, the Company shall, at the request of Employee, pay for or provide medical benefits to Employee no less favorable than the Company's retiree medical benefits in effect as the Effective Date; and provided, further, that if Employee becomes re-employed with another employer and is eligible to receive medical or other welfare benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. If such payment of premiums by the Company is taxable to Employee, the Company shall make an additional payment to Employee equal to local, state and federal taxes owed on such premium payments; and

(v) To the extent not theretofore paid or provided, the Company shall timely pay or provide to Employee any Other Benefits (as defined in Paragraph 10(e)).

12 . Excise Tax Gross-Up .

a. Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined as provided below that any payment or distribution by the Company to or for the benefit of Employee (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Paragraph 12) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by Employee with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Employee shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Employee of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, Employee retains an amount of the Gross-Up Payment equal to the

Excise Tax imposed upon the Payments.

b. All determinations required to be made under this Paragraph 12, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be used in arriving at such determination, shall be made by the tax department of an independent public accounting firm (the "Accounting Firm") which shall be engaged by the Company prior to the time of the first Payment to Employee. The Accounting Firm selected shall not be serving as accountant or auditor for the individual, entity or group effecting the Change in Control. The Accounting Firm shall prepare and provide detailed supporting calculations both to the Company and Employee within 15 business days of the later of (i) the Accounting Firm's engagement to make the required calculations or (ii) the date the Accounting Firm obtains all information needed to make the required calculation. Any determination by the Accounting Firm shall be binding upon the Company and Employee. All fees and expenses of the Accounting Firm shall be borne solely by the Company.

c. Any Gross-Up Payment, as determined pursuant to this Paragraph 12, shall be paid by the Company to Employee within five (5) days of the receipt of the Accounting Firm's determination if the Payment is then required to satisfy an assessment or other current demand for payment made of the Employee by federal or state taxing authorities. Gross-Up Payments due at a later date shall be paid to the Employee no later than fourteen days prior to the date that the Employee's federal or state payment is due. If required by law, the Company shall treat all or any portion of the Gross-Up Payment as being subject to income tax withholding for federal or state tax purposes. Amounts determined by the Company to be subject to federal or state tax withholding will not be paid directly to Employee but shall be timely paid to the respective taxing authority.

d. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that Employee hereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Employee. Conversely, if it is later determined that the actual required Gross-Up Payment was less than the amount paid to the Employee, the Employee shall refund the excess portion to the Company but only to the extent that the Employee has not yet paid the excess amount to the taxing authorities or is able to obtain a refund from the respective taxing authorities of amounts previously paid. The Company may pursue at its own expense the refund on behalf of the Employee.

13. Costs of Enforcement . In any action taken in good faith relating to the enforcement of this Agreement or any provision herein, subject to the aggregate limit below, Employee shall be entitled to be paid any and all costs and expenses incurred by him in enforcing or establishing his rights thereunder, including, without limitation, reasonable attorneys' fees, whether suit be brought or not, and whether or not incurred in trial, bankruptcy or appellate proceedings. Subject to the aggregate limit below, Employee shall also be entitled to be paid all reasonable legal fees

and expenses, if any, incurred in connection with any tax audit or proceeding to the extent attributable to the application of Paragraph 4999 of the Code to any payment or benefit hereunder. The Company's aggregate limit to pay costs under this Paragraph 13 is Fifty Thousand and No/100 Dollars (\$50,000). Such payments, if any, shall be made within five (5) business days after delivery of Employee's respective written requests for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require.

14. Publicity; No Disparaging Statement. Employee and the Company covenant and agree that they shall not engage in any communications which shall disparage one another or interfere with their existing or prospective business relationships.

15. Business Protection Provision Definitions.

a. Preamble. As a material inducement to the Company to enter into this Agreement, and its recognition of the valuable experience, knowledge and proprietary information Employee gained from his employment with the Company, Employee warrants and agrees he will abide by and adhere to the following business protection provisions in Paragraphs 15, 16, 17 and 18 herein. In the event that there is a breach of any of such business protection provisions or other provisions of this Agreement, any unpaid amounts, for example those provided under Paragraph 10(a)(ii), shall be forfeited.

b. Definitions. For purposes of Paragraphs 15, 16, 17 and 18 herein, the following terms shall have the following meanings:

(i) "Competitive Position" shall mean any employment, consulting, advisory, directorship, agency, promotional or independent contractor arrangement between the Employee and any person or Entity engaged wholly or in material part in the discount "dollar" retail business in which the Company is engaged including but not limited to such other similar businesses as Family Dollar Stores, Fred's, the 99 Cents Store and Dollar Tree Stores whereby Employee is required to or does perform services on behalf of or for the benefit of such person or Entity which are substantially similar to the services Employee participated in or directed while employed by the Company or any of its affiliates (collectively the "DG Entities").

(ii) "Confidential Information" shall mean the proprietary or confidential data, information, documents or materials (whether oral, written, electronic or otherwise) belonging to or pertaining to the DG Entities, other than "Trade Secrets" (as defined below), which is of tangible or intangible value to any of the DG Entities and the details of which are not generally known to the competitors of the DG Entities. Confidential Information shall also include: any items that any of the DG Entities have marked "CONFIDENTIAL" or some similar designation or are otherwise identified as being confidential.

(iii) "Entity" or "Entities" shall mean any business, individual, partnership, joint venture, agency, governmental agency, body or subdivision, association, firm, corporation, limited liability company or other entity of any kind.

- (iv) “Restricted Period” shall mean two (2) years following Employee’s termination date.
- (v) “Territory” shall include those states in which the Company maintains stores at the time of termination.
- (vi) “Trade Secrets” shall mean information or data of or about any of the DG Entities, including, but not limited to, technical or non-technical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans or lists of actual or potential customers or suppliers that: (A) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; (B) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy; and (C) any other information which is defined as a “trade secret” under applicable law.
- (vii) “Work Product” shall mean all tangible work product, property, data, documentation, “know-how,” concepts or plans, inventions, improvements, techniques and processes relating to the DG Entities that were conceived, discovered, created, written, revised or developed by Employee during the term of his employment with the Company.

16. Nondisclosure: Ownership of Proprietary Property .

a. In recognition of the need of the Company to protect its legitimate business interests, Confidential Information and Trade Secrets, Employee hereby covenants and agrees that Employee shall regard and treat Trade Secrets and all Confidential Information as strictly confidential and wholly-owned by the Company and shall not, for any reason, in any fashion, either directly or indirectly, use, sell, lend, lease, distribute, license, give, transfer, assign, show, disclose, disseminate, reproduce, copy, misappropriate or otherwise communicate any such item or information to any third party or Entity for any purpose other than in accordance with this Agreement or as required by applicable law, court order or other legal process: (i) with regard to each item constituting a Trade Secret, at all times such information remains a “trade secret” under applicable law, and (ii) with regard to any Confidential Information, for the Restricted Period.

b. Employee shall exercise best efforts to ensure the continued confidentiality of all Trade Secrets and Confidential Information, and he shall immediately notify the Company of any unauthorized disclosure or use of any Trade Secrets or Confidential Information of which Employee becomes aware. Employee shall assist the Company, to the extent necessary, in the protection of or procurement of any intellectual property protection or other rights in any of the Trade Secrets or Confidential Information.

c. All Work Product shall be owned exclusively by the Company. To the greatest extent possible, any Work Product shall be deemed to be “work made for hire” (as defined in the Copyright Act, 17 U.S.C.A. § 101 et seq., as amended), and Employee hereby unconditionally and irrevocably transfers and assigns to the Company all right, title and interest Employee currently has or may have by operation of law or otherwise in or

to any Work Product, including, without limitation, all patents, copyrights, trademarks (and the goodwill associated therewith), trade secrets, service marks (and the goodwill associated therewith) and other intellectual property rights. Employee agrees to execute and deliver to the Company any transfers, assignments, documents or other instruments which the Company may deem necessary or appropriate, from time to time, to protect the rights granted herein or to vest complete title and ownership of any and all Work Product, and all associated intellectual property and other rights therein, exclusively in the Company.

17. Non-Interference With Employees. Employee covenants and agrees that during the Restricted Period he will not, either directly or indirectly, alone or in conjunction with any other person or Entity: (a) actively recruit, solicit, attempt to solicit, or induce any person who, during such Restricted Period, or within one year prior to Employee's termination date, was an exempt employee of the Company or any of its subsidiaries, or was an officer of any of the other DG Entities to leave or cease such employment for any reason whatsoever; or (b) hire or engage the services of any such person described in Paragraph 17(a) above in any business substantially similar or competitive with that in which the DG Entities were engaged during his employment.

18. Non-Interference With Business.

a. Employee and Company expressly covenant and agree that the scope, territorial, time and other restrictions contained in this entire Agreement constitute the most reasonable and equitable restrictions possible to protect the business interest of the Company given: (i) the business of the Company; (ii) the competitive nature of the Company's industry; and (iii) that Employee's skills are such that he could easily find alternative, commensurate employment or consulting work in his field which would not violate any of the provisions of this Agreement. Employee further acknowledges that the payments described in Paragraphs 5, 10 and 11 are also in consideration of his covenants and agreements contained in Paragraphs 15 through 18 hereof.

b. Employee covenants and agrees to not obtain or work in a Competitive Position within the Territory for a period of two (2) years from his termination date.

19. Return of Materials. Upon Employee's termination, or at any point after that time upon the specific request of the Company, Employee shall return to the Company all written or descriptive materials of any kind belonging or relating to the Company or its affiliates, including, without limitation, any originals, copies and abstracts containing any Work Product, intellectual property, Confidential Information and Trade Secrets in Employee's possession or control.

20. General Provisions.

a. Amendment. This Agreement may be amended or modified only by a writing signed by both of the parties hereto.

b. Binding Agreement. This Agreement shall inure to the benefit of and be binding upon Employee, his heirs and personal representatives, and the Company and its successors and assigns.

c. Waiver Of Breach; Specific Performance. The waiver of a breach of any provision of this

Agreement shall not operate or be construed as a waiver of any other breach. Each of the parties to this Agreement will be entitled to enforce its or his rights under this Agreement, specifically, to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights existing in its or his favor. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party may in its or his sole discretion apply to any court of law or equity of competent jurisdiction for specific performance or injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement.

d. Unsecured General Creditor . The Company shall neither reserve nor specifically set aside funds for the payment of its obligations under this Agreement, and such obligations shall be paid solely from the general assets of the Company. Notwithstanding the foregoing, in order to ensure the payment of the severance benefits provided for in Paragraph 11(c)(i) of this Agreement, immediately following the commencement of any action by a third party with the aim of effecting a Change in Control of the Company, or the publicly-announced threat by a third party to commence any such action, the Company shall establish an irrevocable standby Letter of Credit issued by a national bank in favor of Employee in the amount of the severance payment that would have been paid to Employee under Paragraph 11(c)(i) if the date of termination had occurred on the date of commencement, or publicly-announced threat of commencement, of such action by the third party. Such Letter of Credit shall provide that the issuer thereof, subject only to Employee's written certification to such issuer that Employee is entitled to payment of the severance benefits pursuant to Paragraph 11(c)(i) of this Agreement and that the Company shall have failed to make payment of such benefits to Employee, shall have the unconditional obligation to pay the amount of such Letter of Credit to Employee in a lump sum on the first day of the month following the receipt of Employee's notice. In the event that subsequent to payment to Employee pursuant to such Letter of Credit (i) the Company and Employee shall mutually agree that Employee shall not have been entitled to payment of the severance benefits pursuant to Paragraph 11(c)(i) of this Agreement or (ii) a court of competent jurisdiction shall finally adjudge Employee not to have been entitled to payment of such severance benefits and such judgment shall have been affirmed on appeal or shall not have been appealed within any time period specified for the filing of an appeal, Employee shall promptly pay to the Company the total amount previously paid to Employee by the issuer of such Letter of Credit and no further payment shall be made to Employee pursuant to such Letter of Credit.

e. No Effect On Other Arrangements . It is expressly understood and agreed that the payments made in accordance with this Agreement are in addition to any other benefits or compensation to which Employee may be entitled or for which he may be eligible, whether funded or unfunded, by reason of his employment with the Company.

f. Tax Withholding . There shall be deducted from each payment under this Agreement the amount of any tax required by any governmental authority to be withheld and paid over by the Company to such governmental authority for the account of Employee.

g. Notices .

(i) All notices and all other communications provided for herein shall be in writing and delivered personally to the other designated party, or mailed by certified or registered mail, return receipt requested, or delivered by a recognized national overnight courier service, or sent by facsimile, as follows:

If to Company to: Dollar General Corporation
Attn: General Counsel's Office
1 Mission Ridge
Goodlettsville, TN 37072-2171
Facsimile: (615) 855-5180

If to Employee to: David A. Perdue
314 Whitworth Way
Nashville, TN 37205

(ii) All notices sent under this Agreement shall be deemed given twenty-four (24) hours after sent by facsimile or courier, seventy-two (72) hours after sent by certified or registered mail and when delivered if personal delivery.

(iii) Either party hereto may change the address to which notice is to be sent hereunder by written notice to the other party in accordance with the provisions of this Paragraph.

h. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee (without giving effect to conflict of laws).

i. Entire Agreement. This Agreement contains the full and complete understanding of the parties hereto with respect to the subject matter contained herein and this Agreement supersedes and replaces any prior agreement, either oral or written, which Employee may have with Company that relates generally to the same subject matter.

j. Assignment. This Agreement may not be assigned by Employee without the prior written consent of Company, and any attempted assignment not in accordance herewith shall be null and void and of no force or effect.

k. Severability. If any one or more of the terms, provisions, covenants or restrictions of this Agreement shall be determined by a court of competent jurisdiction to be invalid, void or unenforceable, then the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect, and to that end the provisions hereof shall be deemed severable.

l. Paragraph Headings. The Paragraph headings set forth herein are for convenience of reference only and shall not affect the meaning or interpretation of this Agreement whatsoever.

m. Interpretation. Should a provision of this Agreement require judicial interpretation, it is agreed that the judicial body interpreting or construing the Agreement shall not apply the assumption that the terms hereof shall be more strictly construed against one party by reason of the rule of construction that an instrument

is to be construed more strictly against the party which itself or through its agents prepared the agreement, it being agreed that all parties and/or their agents have participated in the preparation hereof.

n. Voluntary Agreement. Employee and Company represent and agree that each has reviewed all aspects of this Agreement, has carefully read and fully understands all provisions of this Agreement, and is voluntarily entering into this Agreement. Each party represents and agrees that such party has had the opportunity to review any and all aspects of this Agreement with legal, tax or other adviser(s) of such party's choice before executing this Agreement.

(Signatures on following page)

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IN WITNESS WHEREOF, the parties hereto have executed, or caused their duly authorized representative to execute, this Agreement as of this 2nd day of April, 2003.

DOLLAR GENERAL CORPORATION

By: /s/ Melissa J. Buffington _____

Its: Senior V.P., H.R. and Strategic Planning _____

“EMPLOYEE”

/s/ David A. Perdue _____

David A. Perdue

Witnessed By: /s/ S. Lanigan _____

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**Addendum to Employment
Agreement with David A. Perdue**

RELEASE AGREEMENT

THIS RELEASE (“Release”) is made and entered into by and between David A. Perdue (“Employee”) and

DOLLAR GENERAL CORPORATION, and its successor or assigns (“Company”).

WHEREAS, Employee and Company have agreed that Employee’s employment with Dollar General Corporation shall terminate on _____;

WHEREAS, Employee and the Company have previously entered into that certain Employment Agreement, dated April 2, 2003 (“Agreement”), and this Release is incorporated therein by reference;

WHEREAS, Employee and Company desire to delineate their respective rights, duties and obligations attendant to such termination and desire to reach an accord and satisfaction of all claims arising from Employee’s employment, and his termination of employment, with appropriate releases, in accordance with the Agreement;

WHEREAS , the Company desires to compensate Employee in accordance with the Agreement for service he has or will provide for the Company;

NOW, THEREFORE , in consideration of the premises and the agreements of the parties set forth in this Release, and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby covenant and agree as follows:

1. Claims Released Under This Agreement

In exchange for receiving the severance benefits described in Paragraph 10 or 11 of the Agreement and except as provided in Paragraph 2 below, Employee hereby voluntarily and irrevocably waives, releases, dismisses with prejudice, and withdraws all claims, complaints, suits or demands of any kind whatsoever (whether known or unknown) which Employee ever had, may have, or now has against Company and other current or former subsidiaries or affiliates of the Company and their past, present and future officers, directors, employees, agents, insurers and attorneys (collectively, the “Releasees”), arising out of or relating to (directly or indirectly) Employee’s employment or the termination of his employment with the Company, including but not limited to:

- (a) claims for violations of Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Fair Labor Standards Act, the Civil Rights Act of 1991, the Americans With Disabilities Act, the Equal Pay Act, the Family and Medical Leave Act, 42 U.S.C. § 1981, the Sarbanes-Oxley Act of 2002, the National Labor Relations Act, the Labor Management Relations Act, Executive Order 11246, Executive Order 11141, the Rehabilitation Act of 1973, or the Employee Retirement Income Security Act;
- (b) claims for violations of any other federal or state statute or regulation or local ordinance;
- (c) claims for lost or unpaid wages, compensation, or benefits, defamation, intentional or negligent infliction of emotional distress, assault, battery, wrongful or constructive discharge, negligent hiring, retention or supervision, fraud, misrepresentation, conversion, tortious interference, breach of contract, or breach of fiduciary duty;
- (d) claims to benefits under any bonus, severance, workforce reduction, early retirement, outplacement, or any other similar type plan sponsored by the Company; or

- (e) any other claims under state law arising in tort or contract.

2. Claims Not Released Under This Agreement

In signing this Release, Employee is not releasing any claims that may arise under the terms of the Agreement, that enforce his rights under the Agreement, that arise out of events occurring after the date Employee executes this Release, that arise under any written non-employment related contractual obligations between the Company or its affiliates and Employee which have not terminated as of the execution date of this Release by their express terms, that arise under a policy or policies of insurance (including director and officer liability insurance) maintained by the Company or its affiliates on behalf of Employee, or that relate to any indemnification obligations to Employee under the Company's bylaws, certificate of incorporation, Tennessee law or otherwise. However, Employee understands and acknowledges that nothing herein is intended to or shall be construed to require the Company to institute or continue in effect any particular plan or benefit sponsored by the Company and the Company hereby reserves the right to amend or terminate any of its benefit programs at any time in accordance with the procedures set forth in such plans.

Nothing in this Agreement shall prohibit Employee from engaging in protected activities under applicable law or from communicating, either voluntarily or otherwise, with any governmental agency concerning any potential violation of the law.

3. No Assignment of Claim . Employee represents that he has not assigned or transferred, or purported to assign or transfer, any claims or any portion thereof or interest therein to any party prior to the date of this Release.

4. Compensation . In accordance with the Agreement, the Company agrees to pay Employee, or if he becomes eligible for payments under Paragraph 10 or 11 but dies before receipt thereof, his spouse or his estate, as the case may be, the amount provided in Paragraph 10 or 11 of the Agreement.

5. No Admission Of Liability . This Release shall not in any way be construed as an admission by the Company or Employee of any improper actions or liability whatsoever as to one another, and each specifically disclaims any liability to or improper actions against the other or any other person, on the part of itself or himself, its or his employees or agents.

6. Voluntary Execution . Employee warrants, represents and agrees that he has been encouraged in writing to seek advice from anyone of his choosing regarding this Release, including his attorney and accountant or tax advisor prior to his signing it; that this Release represents written notice to do so; that he has been given the opportunity and sufficient time to seek such advice; and that he fully understands the meaning and contents of this Release. He further represents and warrants that he was not coerced, threatened or otherwise forced to sign this Release, and that his signature appearing hereinafter is voluntary and genuine. **EMPLOYEE UNDERSTANDS THAT HE MAY TAKE UP TO TWENTY-ONE (21) DAYS TO CONSIDER WHETHER OR NOT HE DESIRES TO ENTER INTO THIS RELEASE.**

7. Ability to Revoke Agreement . **EMPLOYEE UNDERSTANDS THAT HE MAY REVOKE THIS RELEASE BY NOTIFYING THE COMPANY IN WRITING OF SUCH REVOCATION WITHIN SEVEN (7)**

DAYS OF HIS EXECUTION OF THIS RELEASE AND THAT THIS RELEASE IS NOT EFFECTIVE UNTIL THE EXPIRATION OF SUCH SEVEN (7) DAY PERIOD. HE UNDERSTANDS THAT UPON THE EXPIRATION OF SUCH SEVEN (7) DAY PERIOD THIS RELEASE WILL BE BINDING UPON HIM AND HIS HEIRS, ADMINISTRATORS, REPRESENTATIVES, EXECUTORS, SUCCESSORS AND ASSIGNS AND WILL BE IRREVOCABLE.

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Acknowledged and Agreed To:

“COMPANY”

DOLLAR GENERAL CORPORATION

By: _____

Its: _____

I UNDERSTAND THAT BY SIGNING THIS RELEASE, I AM GIVING UP RIGHTS I MAY HAVE. I UNDERSTAND THAT I DO NOT HAVE TO SIGN THIS RELEASE.

“EMPLOYEE”

Date

David A. Perdue

WITNESSED BY:

Date

#

**SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
FOR DAVID A. PERDUE**

**SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
FOR DAVID A. PERDUE**

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SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN FOR DAVID A. PERDUE

Pursuant to the terms of the Employment Agreement with David A. Perdue, Dollar General Corporation (the “Company”) has adopted the Supplemental Employee Retirement Plan (the “SERP”), effective April 2, 2003, in order to attract, retain and motivate the executive to excel as Chief Executive Officer of the Company.

The Company intends the SERP to be an unfunded plan maintained primarily for the purpose of providing deferred compensation within the meaning of Sections 201, 301, and 401 of the Employee Retirement Income Security Act of 1974 (“ERISA”).

SECTION 1 DEFINITIONS

When used herein, the following words and phrases and any derivatives thereof shall have the meanings below unless the context clearly indicates otherwise. Definitions of other words and phrases are set forth throughout the SERP. Section references indicate Sections of the SERP unless otherwise stated.

- 1.1 “Actuarial Equivalent” means equal value computed on the basis of (i) the UP-94 Mortality Table (sex-distinct), and (ii) a discount rate of 6.0%, compounded annually.
- 1.2 “Agreement” means the Employee’s Employment Agreement dated April 2, 2003.
- 1.3 “Applicable Annual Bonus” has the meaning set forth in the Agreement.
- 1.4 “Base Salary” has the meaning set forth in the Agreement.
- 1.5 “Board of Directors” means the Board of Directors of the Company.
- 1.6 “Change in Control” has the meaning set forth in the Agreement.
- 1.7 “Code” means the Internal Revenue Code of 1986 as amended from time to time, and regulations and rulings issued under

the Code.

1.8 “Company” means Dollar General Corporation and any successor thereto.

1.9 “Compensation” means the Employee’s Base Salary plus annual incentive “team share” bonus paid for a fiscal year.

1.10 “Compensation Committee” means the Compensation Committee of the Board of Directors of the Company.

1.11 “Disability” has the meaning set forth in the Agreement.

1.12 “Early Retirement Factor” means 100% minus 0.41667% times the number of months the Employee’s age at his Early Retirement Date precedes his age 60.

1.13 “Employee” means David A. Perdue.

1.14 “Final Average Compensation” means the average of the Employee’s Compensation for the three (3) out of the last ten (10) consecutive fiscal years of service preceding retirement or termination of employment (or such fewer years of consecutive fiscal years of service if the Employee does not have ten consecutive fiscal years of service) in which the executive’s Compensation was the highest.

1.15 “Good Reason” has the meaning set forth in the Agreement.

1.16 “Joint and 50% Survivor Annuity” means an annuity payable for the life of the Employee, and, if the Employee predeceases his spouse, his Surviving Spouse shall receive a reduced benefit payable for her lifetime. The Surviving Spouse’s benefit is the Actuarial Equivalent of a straight life annuity of 50% of the Employee’s benefit payable to a woman the same age as the Employee at his death.

1.17 “SERP” means the Supplemental Employee Retirement Plan.

1.18 “Supplemental Plan Benefit” means the benefit payable in accordance with the SERP.

1.19 “Surviving Spouse” means the person to whom the Employee is legally married on his date of death.

1.20 “Termination for Cause” or “Cause” has the meaning set forth in the Agreement.

1.21 “Years of Credited Service” means a twelve (12) consecutive month period commencing on executive’s effective date of employment and any subsequent twelve (12) consecutive month period commencing on an annual anniversary of such employment date. Paid and authorized leaves of absence do not cause a break in consecutive employment periods. Years of Credited Service shall be utilized for purposes of determining eligibility for Normal and Early Retirement, vesting percentages, and for calculating the Supplemental Plan Benefit. In the normal course of employment, service shall be credited in accordance with the following schedule:

If termination from the Company occurs on or after	Years of Credited Service

April 2, 2004	2
April 2, 2005	4
April 2, 2006	6
April 2, 2007	8
April 2, 2008	10
April 2, 2009	11
April 2, 2010	12
April 2, 2011	13
April 2, 2012	14
April 2, 2013	15

In the event Employee is granted Years of Credited Service in accordance with Section 3.6 or 3.7, each such Year of Credited Service shall be treated as two (2) years in accordance with the above schedule until Employee has accrued or has been deemed to accrue ten (10) Years of Credited Service. Thereafter, each additional year shall be treated as one (1) Year of Credited Service to a maximum of fifteen (15) Years of Credited Service.

SECTION 2 ELIGIBILITY TO PARTICIPATE

Only the Employee shall be eligible to participate in the SERP. In the event Employee elects a Joint and 50% Survivor Annuity and predeceases his Surviving Spouse, she shall also participate as a beneficiary until her death. If Employee is Terminated for Cause, Employee shall forfeit all rights to a Supplemental Plan Benefit.

SECTION 3 ELIGIBILITY FOR AND AMOUNT OF BENEFITS

3.1 Normal Retirement Benefit. The Normal Retirement Benefit of the Employee upon his attainment of his Normal Retirement Date shall be a Supplemental Plan Benefit equal to 25% of Final Average Compensation payable as a Joint and 50% Survivor Annuity.

3.2 Early Retirement Benefit. The Early Retirement Benefit of the Employee who attains his Early Retirement Date shall be a Supplemental Plan Benefit payable as a Joint and 50% Survivor Annuity equal to 25% of Final Average Compensation multiplied by

- a) the ratio of Years of Credited Service at his Early Retirement Date to 15; times
- b) the Early Retirement Factor.

3.3 Late Retirement Benefit. The Late Retirement Benefit of the Employee shall be the Supplemental Plan Benefit calculated as set forth in Section 3.1 above and based on his Final Average Compensation as of his Late Retirement Date.

3.4 Disability. In the event the Employee incurs a Disability, the Employee will receive a benefit calculated as set forth in

Section 3.1 above. For purposes of calculating his Final Average Compensation, the Employee's Base Salary as in effect on his date of termination shall be used as his Base Salary for Employee's deemed additional Years of Credited Service and his Applicable Annual Bonus shall be used as his bonus for such additional Years of Credited Service.

3.5 Death Prior to Termination of Employment. If the Employee dies after he is eligible for an Early or Normal Retirement Benefit, but prior to termination of employment with the Company, his Surviving Spouse, if any, shall be entitled to a Supplemental Plan Benefit determined in accordance with Section 3.1 and 3.2 based on the Employee's Years of Credited Service and Final Average Compensation as of his date of death. The Surviving Spouse shall receive the Surviving Spouse's benefit under a Joint and 50% Survivor Annuity as if the Employee had retired on his date of death.

3.6 Termination without Cause. If the Employee incurs a termination for reasons other than Cause, the Employee will be treated for purposes of the SERP as having five (5) additional Years of Credited Service with the Company. For purposes of calculating his Final Average Compensation under the SERP, the Employee's Base Salary as in effect on the date of Employee's termination shall be used as his Base Salary for Employee's deemed additional Years of Credited Service and the Employee's Applicable Annual Bonus shall be used as his bonus for such additional fiscal Years of Credited Service.

3.7 Change in Control. If the Employee incurs a termination for reasons other than Cause at any time during the two-year period following a Change in Control or he shall voluntarily terminate his employment with the Company for Good Reason at any time during the two year period following a Change in Control, the Employee shall be treated for purposes of the SERP as having five (5) additional Years of Credited Service with the Company. For purposes of calculating his Final Average Compensation under the SERP, the Employee's Base Salary as in effect on the date of termination or, if higher, as of the date immediately preceding the Change in Control, shall be used as his Base Salary for Employee's deemed additional Years of Credited Service, and the Employee's Applicable Annual Bonus shall be used as his bonus for such additional Years of Credited Service.

SECTION 4 VESTING

The Employee's Supplemental Plan Benefit will become 100% vested after ten (10) Years of Credited Service. Notwithstanding that the Employee's benefit becomes 100% vested under the terms of this Article, no payment of the benefit may be made unless and until the Employee retires from employment with the Company, dies or becomes disabled as contemplated in Section 5.2.

SECTION 5 FORM AND COMMENCEMENT OF BENEFITS

5.1 Form of Benefits. Supplemental Plan Benefits payable to the Employee or Surviving Spouse pursuant to Section 3 may be paid in any annuity form that is the Actuarial Equivalent of the Supplemental Plan Benefit payable as a Joint and 50% Survivor Annuity. In addition, the Employee may elect a lump sum distribution of his Supplemental Plan Benefits calculated as the Actuarial Equivalent of his Normal Retirement Benefit. His election of an optional form of benefit must be in writing and must be received by the Company no later than twelve (12) months prior to the date on which he actually begins to receive the benefit. If not received by said date, any such election shall have no effect. Should there be a final determination by a court of competent jurisdiction or through a binding agreement or settlement, prior to the receipt of all benefits hereunder, that a subsequent election to defer is a violation of the constructive receipt doctrine or any other legal

doctrine or theory which would preclude the continued deferral of recognition of income, then this provision will be null and void, and the Employee will be deemed to have elected a lump sum benefit as the form of distribution effective as of such final determination.

5.2 Commencement.

a) The Employee shall commence receipt of a Supplemental Plan Benefit upon his retirement from the Company beginning on one of the following dates:

1) "Normal Retirement Date," which is the first day of the month coincident with or next following the month in which Employee terminates from the Company having fifteen (15) Years of Credited Service or, if later, attainment of age sixty (60),

2) "Early Retirement Date," which is the first day of any month coincident with or next following the month in which the Employee terminates from the Company having at least ten (10) Years of Credited Service, and

3) "Late Retirement Date," which is the first day of the month coincident with or next following the Employee's termination of employment with the Company after his Normal Retirement Date.

(b) The Employee shall commence receipt of a Supplemental Plan Benefit upon incurring a Disability upon what would have been Employee's Normal Retirement Date if he had continued to work for the Company but for such Disability until such date. If the Employee recovers from a Disability prior to commencement of receipt of a benefit, and the Employee does not return to work for the Company, or if the Employee's period of Disability ceases by reason of death prior to commencement of a benefit, employment with the Employer will be deemed terminated as of the day of recovery or death and in such event the Employee or Surviving Spouse, as the case may be, will be entitled only to the benefit otherwise provided under Sections 3 and 5.

(c) The Employee shall commence receipt of a Supplemental Plan Benefit upon a termination for reasons other than Cause at his Early, Normal or Late Retirement Date.

(d) The Employee shall commence receipt of a Supplemental Plan Benefit upon a Termination for reasons other than Cause within the two (2) year period following a Change in Control or upon termination of his employment for Good Reason during such two (2) year period at this Early, Normal or Late Retirement Date.

(e) The Surviving Spouse shall commence receipt of a Joint and 50% Survivor Annuity on the first day of the month following the Employee's death provided that no such benefit shall commence if Employee has prior to his death received a lump sum distribution of the Supplemental Plan Benefit.

(f) If the Agreement requires that Employee effectuate a Release prior to commencement of payments, including but not limited to Supplemental Plan Benefits, then such requirement must also be met prior to commencement of payments under this Section 5.

SECTION 6 AMENDMENT AND TERMINATION

The SERP may be amended or terminated only by a writing signed by both the Company and Employee. The SERP is based on the

current provisions of the law applicable to such types of plan. If there is a material change in the law, the Company will work with Employee in good faith to provide a comparable plan taking into account any such changes in the law.

SECTION 7 MISCELLANEOUS

7.1 No Effect on Employment Rights. Nothing contained herein will confer upon the Employee the right to be retained in the service of the Company nor limit the right of the Company to discharge or otherwise deal with the Employee without regard to the existence of the SERP.

7.2 Funding. The SERP at all times shall be unfunded such that Supplemental Plan Benefits shall be paid solely from the general assets of the Company. Neither the Employee nor his Surviving Spouse shall have any interest in any particular assets of the Company by reason of the right to receive a benefit under the SERP and the Employee or his Surviving Spouse shall have only the rights of a general unsecured creditor of the Company with respect to any rights under the SERP. Nothing contained in the SERP shall constitute a guaranty by the Company or any other entity or person that the assets of the Company will be sufficient to pay any benefit hereunder.

7.3 Administration. The Compensation Committee shall administer the SERP. The Compensation Committee shall be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by the Company with respect to the SERP.

7.4 Disclosure. The Employee shall be a signatory to and shall receive a copy of the SERP.

7.5 State Law. The SERP is established under and will be construed according to the laws of the State of Tennessee, to the extent that such laws are not preempted by ERISA and valid regulations published thereunder.

7.6 Spendthrift Provisions. No benefit payable under the SERP will be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge prior to actual receipt thereof by the payee. Any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge prior to such receipt will be void. The Company will not be liable in any manner for or subject to the debts, contracts, liabilities, engagements or torts of any person entitled to any benefit under the SERP. The amounts payable under this SERP will be exempt from the claims of the Employee's creditors to the fullest extent permitted by law.

7.7 Incapacity of Recipient. In the event the Employee or Surviving Spouse is declared incompetent and a conservator or other person legally charged with the care of his person or of his estate is appointed, any benefits under the SERP to which such person is entitled shall be paid to such conservator or other person legally charged with the care of this person or his estate. Except as provided above in this paragraph, when the Compensation Committee in its sole discretion, determines that a Employee or Surviving Spouse is unable to manage his or her financial affairs, the Compensation Committee may direct the Company to make distributions to a duly authorized person for the benefit of such Employee or Surviving Spouse.

7.8 Unclaimed Benefit. The Employee shall keep the Compensation Committee informed of his current address and the current address of his spouse. The Compensation Committee shall not be obligated to search for the whereabouts of any person. If the location of the Employee is not made known to the Compensation Committee within three (3) years after the date on which any payment of the Employee's Supplemental Plan Benefit may be made, payment may be made as though the Employee had died at the end of the three-year period. If,

within one additional year after such three-year period has elapsed, or, within three years after the actual death of a Employee, the Compensation Committee is unable to locate any Surviving Spouse of the Employee, then the Company shall have no further obligation to pay any benefit hereunder to such Employee or Surviving Spouse or any other person and such benefit shall be irrevocably forfeited.

7.9 Limitations on Liability. Notwithstanding any of the preceding provisions of the SERP, except for payment of Supplemental Plan Benefits due under the SERP by the Company, neither the Company nor any individual acting as an agent of the Company or as a member of the Compensation Committee shall be liable to the Employee, Surviving Spouse or any other person for any claim, loss, liability or expense incurred in connection with the SERP.

7.10 Claims Procedure. The Compensation Committee has full discretion and the exclusive right to determine eligibility for benefits under the SERP pursuant to its terms. The determination of the Compensation Committee may only be appealed to the Board of Directors.

7.11 No Enlargement of Rights. The Employee will have no right to or interest in any portion of the SERP except as specifically provided in the SERP.

7.12 Withholding for Taxes. Payment under the SERP will be subject to withholding for payroll taxes as required by law, including state and federal income taxes and FICA taxes.

7.13 All Prior Agreements Superseded. The SERP, as set forth in this document, is intended to provide the benefit described in Exhibit A of the Agreement. As such, the Agreement and the SERP should be read together to determine Employee's rights to a Supplemental Plan Benefit. The Agreement and the SERP constitute the sole and complete understanding between the Company and the Employee with respect to all issues arising from the Company's obligation under the Agreement. Except with respect to the terms of the Agreement, the SERP replaces and supersedes all previous written documents and all oral agreements, of any nature whatsoever, regarding the Company's obligation to provide such supplemental retirement benefits (but only such benefits) to the Employee, and the Employee has indicated his acknowledgement of said fact by signing this agreement in the space below.

IN WITNESS WHEREOF Dollar General Corporation has caused this Supplemental Employee Retirement Plan to be executed by its authorized officer this 21st day of April, 2003, to be effective as of April 2, 2003.

DOLLAR GENERAL CORPORATION

By: /s/ Melissa J. Buffington _____

Its: SVP, HR and Strategic Planning _____

"EMPLOYEE"

/s/ David A. Perdue _____

David A. Perdue

Witnessed By: /s/ S. Lanigan _____

**DOLLAR GENERAL CORPORATION
RESTRICTED STOCK AGREEMENT**

This Agreement is made and entered into as of the 2nd day of April, 2003, by and between DOLLAR GENERAL CORPORATION, a Tennessee corporation (the "Company"), and DAVID A. PERDUE, Chief Executive Officer of the Company (the "Employee").

WHEREAS, the Company has agreed to grant to the Employee Seventy-Eight Thousand Eight Hundred Sixty-Five (78,865) shares of restricted Company common stock (the "Restricted Stock") pursuant to the terms of an Employment Agreement, dated as of April 2, 2003, by and between the Company and the Employee (the "Employment Agreement"); and

WHEREAS, the agreement to grant the Restricted Stock was a material inducement to the Employee's entering into the Employment Agreement; and

WHEREAS, the Employment Agreement contemplates the execution of an agreement evidencing the Restricted Stock grant; and

WHEREAS, although the Restricted Stock is not being granted under or pursuant to the Company's 1998 Stock Incentive Plan (the "Plan"), the terms of such Plan shall apply to the Restricted Stock to the extent such Plan terms do not conflict with the terms of the Employment Agreement.

NOW, THEREFORE, for and in consideration of the premises and other good and valuable consideration, including the services to be rendered to the Company by the Employee, the Company does hereby grant the Restricted Stock to the Employee, and the Employee accepts such Restricted Stock, on the following terms and conditions:

(1) Grant of Restricted Stock. The Company hereby grants to the Employee on the date hereof, out of the Company's authorized and unissued shares, Seventy-Eight Thousand Eight Hundred Sixty-Five (78,865) shares of Restricted Stock, subject to all the restrictions, limitations and other terms and provisions of the Employment Agreement, the Plan (solely to the extent such terms do not conflict with the terms of the Employment Agreement) and this Agreement. The Company shall cause such Restricted Stock to be issued by the Company's stock transfer agent who will release such Restricted Stock to the Employee solely upon the written instructions of the Company. The Company shall maintain physical custody of the certificate(s) representing the Restricted Stock.

(2) Restrictions. Until the Restricted Stock vests, the Restricted Stock shall be subject to the prohibitions and restrictions on transfer set forth herein and in the Plan (the "Restrictions"). The Employee shall have all of the rights of a shareholder of the Company, including the right to vote the shares and to receive any cash dividends. Stock dividends or stock splits issued with respect to the Restricted Stock shall be treated as additional shares of Restricted Stock that are subject to the same restrictions, and all other terms and conditions that apply to the shares on which such dividends are paid or additional shares are issued.

(3) Vesting. Except as may be provided in the Employment Agreement in cases of death, Disability (as defined in the Employment Agreement) or termination of employment, the Restricted Stock, subject to all the restrictions, limitations and other terms and provisions of the Employment Agreement, the Plan and this Agreement, shall vest and the Restrictions shall lapse in accordance with the following schedule:

<u>Number of Shares</u>	<u>Vesting Date</u>
15,773	April 2, 2004
15,773	April 2, 2005
15,773	April 2, 2006
15,773	April 2, 2007
15,773	April 2, 2008

(4) Non-transferability. Unvested Restricted Stock is not transferable by the Employee other than to a member of Employee's Immediate Family (as defined in the Plan) or a trust for the benefit of Employee or a member of his Immediate Family (as defined in the Plan), or by will or the laws of descent and distribution, or as otherwise provided from time to time in the Plan.

(5) Agreement Subject to Employment Agreement and Plan. This Agreement does not undertake to express all

conditions, terms and provisions of the Employment Agreement and the Plan. The grant of the Restricted Stock is subject in all respects to all of the restrictions, limitations and other terms and provisions of the Employment Agreement and the Plan, each of which, by this reference, are incorporated herein to the same extent as if copied verbatim. Where the terms of the Plan conflict with the terms of the Employment Agreement, the terms of the Employment Agreement shall govern and take precedence in all cases. The Company and the Employee hereby acknowledge, confirm and agree that the Restricted Stock is not granted under or pursuant to the terms of the Plan and the terms of the Plan shall govern the Restricted Stock as provided herein solely as a contractual convenience.

(6) Tax Withholding and Section 83(b) Elections. At the time the Employee shall become subject to federal income taxation with respect to the Restricted Stock (normally upon vesting, unless the Employee files an election under Section 83(b) of the Code), the Employee shall pay to the Company the amount of any Federal, state, local and other taxes required to be withheld by the Company with respect to the Restricted Stock. If the Employee files an election under Section 83(b) of the Code with the Internal Revenue Service to include the fair market value of any shares of Restricted Stock in gross income while they are still subject to the Restrictions, the Employee shall promptly furnish to the Company a copy of such election. The Company may make such provisions and take such steps as it may deem necessary or appropriate for the withholding of all Federal, state, local and other taxes required by law to be withheld upon the vesting of the Restricted Stock.

(7) Acceptance of Restricted Stock. The Employee hereby accepts the Restricted Stock subject to all the restrictions, limitations and other terms and provisions of the Employment Agreement, the Plan and this Agreement.

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IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the day and year first above written.

DOLLAR GENERAL CORPORATION

By: /s/ Melissa J. Buffington

Name: Melissa J. Buffington

Title: Sr VP, HR and Strategic Planning

DAVID A. PERDUE

/s/ David A. Perdue

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DOLLAR GENERAL CORPORATION
NONQUALIFIED STOCK OPTION AGREEMENT

This Agreement is made and entered into as of the 2nd day of April, 2003, by and between DOLLAR GENERAL CORPORATION, a Tennessee corporation (the "Company"), and DAVID A. PERDUE, Chief Executive Officer of the Company (the "Employee").

WHEREAS, the Company has agreed to grant to the Employee an option to purchase 500,000 shares of Company common stock (the "Common Stock") pursuant to the terms of an Employment Agreement, dated as of April 2, 2003, by and between the Company and the Employee (the "Employment Agreement"); and

WHEREAS, the agreement to grant the option was a material inducement to the Employee's entering into the Employment Agreement; and

WHEREAS, the Employment Agreement contemplates the execution of an option agreement evidencing the option grant; and

WHEREAS, although the option is not being granted under or pursuant to the Company's 1998 Stock Incentive Plan (the "Plan"), the terms of such Plan shall apply to the option to the extent such Plan terms do not conflict with the terms of the Employment Agreement.

NOW, THEREFORE, for and in consideration of the premises and other good and valuable consideration, including the services to be rendered to the Company by the Employee, the Company does hereby grant an option to the Employee, and the Employee accepts such option, on the following terms and conditions:

(1) Grant of Option and Option Price. The Company hereby grants to the Employee the right and option (the "Option") to purchase out of the Company's authorized and unissued shares, all or any part of the number of shares of Common Stock herein set forth, at the exercise price per share herein set forth, subject to all the restrictions, limitations and other terms and provisions of the Employment Agreement, the Plan (solely to the extent such terms do not conflict with the terms of the Employment Agreement) and this Agreement:

Number of shares covered by this Option: 500,000

Exercise price per share: \$12.68

(2) Term of Option. This Option is not exercisable after the expiration of ten (10) years from April 2, 2003, the date on which the Option was granted by the Company's Board of Directors, subject to earlier termination as provided in the Employment Agreement or the Plan.

(3) Vesting and Exercisability. Except as may be provided in the Employment Agreement in cases of death, Disability (as defined in the Employment Agreement) or termination of employment, or in the Plan in cases of Retirement (as defined in the Plan), this Option, subject to all the restrictions, limitations and other terms and provisions of the Employment Agreement, the Plan and this Agreement, shall vest and become exercisable in accordance with the following schedule:

<u>Number of Shares</u>	<u>Vesting Date</u>
166,666	April 2, 2005
333,334	April 2, 2006

(4) Non-transferability. This Option is not transferable by the Employee other than to a member of Employee's Immediate Family (as defined in the Plan) or a trust for the benefit of Employee or a member of his Immediate Family (as defined in the Plan), or by will or the laws of descent and distribution, or as otherwise provided from time to time in the Plan.

(5) Agreement Subject to Employment Agreement and Plan. This Agreement does not undertake to express all conditions, terms and provisions of the Employment Agreement and the Plan. The grant, and any exercise, of this Option is subject in all respects to all of the restrictions, limitations and other terms and provisions of the Employment Agreement and the Plan, each of which, by this reference, are incorporated herein to the same extent as if copied verbatim. Where the terms of the Plan conflict with the terms of the Employment Agreement, the terms of the Employment Agreement shall govern and take precedence in all cases. The Company and the Employee hereby acknowledge, confirm and agree that the Option is not granted under or pursuant to the terms of the Plan and the terms of the Plan shall govern the Option as provided herein solely as a contractual convenience.

(6) Acceptance of Option. The Employee hereby accepts this Option subject to all the restrictions, limitations and other terms and provisions of the Employment Agreement, the Plan and this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the day and year first above written.

DOLLAR GENERAL CORPORATION

By: /s/ Melissa J. Buffington

Name: Melissa J. Buffington

Title: Sr VP, HR and Strategic Planning

DAVID A. PERDUE

/s/ David A. Perdue

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RESIGNATION AGREEMENT

For good and valuable consideration, the parties hereto agree that, pursuant to that Executive Employment Agreement (the "Employment Agreement") entered November 12, 2002 between Donald S. Shaffer ("Executive") and Dollar General Corporation (the "Company"), Executive hereby resigns from his position as President and Chief Operating Officer of the Company, effective May 7, 2003.

The Company acknowledges and agrees that Executive's resignation shall be considered a "Retirement" under the Company's Employee Stock Incentive Plan and constitutes a Post-Transition Resignation as defined in Section 8(d) of the Employment Agreement. Assuming Executive's execution of a Settlement Agreement, General Release and Covenant Not to Sue in the form of Addendum A to the Employment Agreement ("Settlement Agreement"), such resignation triggers the severance obligations referenced in Section 9 (b)(i-vi) of the Employment Agreement.

In addition, pursuant to Paragraph 9(b)(vi) of the Employment Agreement, and assuming execution of the Settlement Agreement, Executive and Company agree that, if, within 18 months of May 7, 2003, Executive moves his residence more than 100 miles from Nashville, Tennessee, Company shall, at Executive's election, (a) reimburse Executive's closing costs related to any new home purchase, up to a maximum amount equal to two percent (2%) of the purchase price of such new home, and reimburse his documented expenses reasonably related to such change of residence up to a maximum amount of \$55,000 (excluding the closing costs referenced above); OR (b) purchase Executive's Nashville residence (515 Westview Avenue) for \$2,500,000.

Assuming execution of the Settlement Agreement, and in lieu of the written notice referenced in Paragraph 8(c)(ii) of the Agreement, Company will pay Executive a lump sum payment equal to 30 days of his base annual salary less applicable deductions. Such payment shall be made promptly upon the expiration of seven days after Executive's execution of the Settlement Agreement.

So agreed, this 7th day of May, 2003.

Executive

Company

/s/ Donald S. Shaffer
Donald S. Shaffer

/s/ David A. Perdue
David A. Perdue
Chief Executive Officer
Dollar General Corporation

Memorandum

To: Don Shaffer

CC: David A. Perdue

From: Susan S. Lanigan

Date: 5/7/2003

Re: Harpeth Hall School Payment

Don –

This will confirm Dollar General Corporation's commitment to you, contingent upon your execution of the Settlement Agreement, General Release and Covenant Not to Sue attached to your November 12, 2002 Employment Agreement, and for other valuable consideration. To wit:

If, prior to the beginning of the 2003-2004 Harpeth Hall School year, you and your family move your primary residence at least 100 miles from Nashville, Tennessee and your daughter does not begin her 2003-2004 school year at Harpeth Hall, and

If, as a result, you are unable to obtain a refund of any tuition deposits you have paid for the 2003-2004 Harpeth Hall School year and/or you are unavoidably required to pay additional tuition,

Then Dollar General Corporation will reimburse you for any such unrecoverable or unavoidable payments, up to \$13,500.

/s/ Susan S. Lanigan

Susan S. Lanigan

Vice President, General Counsel

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CERTIFICATION
Pursuant to 18 United States Code Section 1350

The undersigned hereby certifies that to his knowledge the Quarterly Report on Form 10-Q for the fiscal quarter ended May 2, 2003 of Dollar General Corporation (the "Company") filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David A. Perdue _____

Name: David A. Perdue

Title: Chief Executive Officer

Date: May 29, 2003

CERTIFICATION
Pursuant to 18 United States Code Section 1350

The undersigned hereby certifies that to his knowledge the Quarterly Report on Form 10-Q for the fiscal quarter ended May 2, 2003 of Dollar General Corporation (the "Company") filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James J. Hagan _____

Name: James J. Hagan

Title: Chief Financial Officer

Date: May 29, 2003